

By Francis Rufus Bellamy

THE BALANCE

SPANISH FAITH

FLASH OF GOLD

WE HOLD THESE TRUTHS



BLOOD MONEY

THE STORY OF
U. S. TREASURY
SECRET AGENTS

By

FRANCIS RUFUS BELLAMY

1947

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CONTENTS

<i>Author's Note</i>	6
1. <i>To Begin With . . .</i>	11
2. <i>Money As a Weapon of War</i>	16
3. <i>Germany Stacks the Cards</i>	24
4. <i>The Dutch Diamond Conspiracy</i>	33
5. <i>The Trial of Werner von Clemm</i>	45
6. <i>America Looks to Her Weapons</i>	56
7. <i>The First Fly Strikes the Web</i>	66
8. <i>The Case of the Failing Bookstore</i>	78
9. <i>The Last of the B. Westermann Company</i>	94
10. <i>The Battle Against "Black Dollars"</i>	115
11. <i>The Unfortunate Affair of the Chilean Ambassador</i>	124
12. <i>The Remarkable Rise of Anibal Vallarino</i>	134
13. <i>The Japanese Muscle In</i>	147
14. <i>Kenji Iki and the Japanese Steamship Company</i>	156
15. <i>Victory in Latin America</i>	165
16. <i>Fritz Mandl: Poison From Europe</i>	180
17. <i>Juan March: Darling of Diplomacy</i>	198
18. <i>Concerning the French Line—and the Free French</i>	213
19. <i>Hitler's Boast Comes True</i>	224
20. <i>The Last Battlefield</i>	243

Author's Note:

Since this book is mainly about the Nazis' attempted conquest of the world, it is just as fantastic as they were.

The only way I can describe it is to say that it is exciting, contemporary inside history, in detective story form.

In essence, it tells for the first time how the U. S. Treasury fought the undercover Money Power of the Axis round the world and trapped the cloaked agents of our enemies from New York to Buenos Aires.

Some of the chapters could go straight into the movies.

Incidentally, it throws a bright light on the problem of keeping international peace hereafter.

In bringing it out my thanks are due not only to the publishers but to DeWitt Wallace and Kenneth Payne of the *Reader's Digest* who shared my enthusiasm for the material and presented some of it to the readers of their magazine.

FRANCIS RUFUS BELLAMY

New York City—1947

Blood Money

Since early 1940 they had formed a vital part of the economic war against the Axis. For four long years, without fanfare or public recognition, they had helped to draw the noose tighter and tighter around the throat of the enemy. Yet for reasons of military security the undercover story of their efforts was still untold.

As if to illustrate the secrecy of their assignment, I could hear occasionally from behind the closed door of an adjoining room a level steely voice:

"Maybe this will refresh your recollection," said the voice. "On May 13th you cabled . . . on June 10th you wrote . . ."

Behind that door, the Treasury chief interrupted our discussion to tell me, one of their investigators was grilling a shipping man who had secretly bought tankers for the Japanese. Censorship had intercepted every cablegram and letter he had written. Across the hall, too, I knew, there waited his turn a lawyer for a Spanish agent—a notorious friend of Franco. And beside him a swarthy Latin-American diplomat clutched his dubious appeal for Treasury permission for an Argentinian banker to use a million dollars frozen in his New York bank account.

Clearly the war was not yet over. There was still good reason for secrecy. Nevertheless I leaned forward persuasively in my chair—the same chair, it occurred to me, from which many a German agent and Japanese diplomat had sought in vain to influence these same experts.

"What you must realize," I found myself saying, "is that I am not searching for secret information that could ever be of any value to an enemy. I'm asking only to make public your record of achievement, a record America should know. Cases closed, dangerous men interned, enemy agents put out of business, Nazi and Japanese cloaks blacklisted: the whole story of the undercover tricks pulled on America by the Axis. What's the matter with giving me facts like these now?"

From the beginning I had been disappointed to find that the men of this Division, like the rest of the Treasury, preferred to keep their own counsel. Heavily armed with editorial introductions, I had come to Washington hoping to get the full story of German and Japanese spies in the United States: all the cloak-and-dagger side of the economic war against the Axis.

In answer the Treasury officials sitting with me around this table had given me a fair and complete summary of their long fight to safeguard America against Axis trespassing, and of their efforts to deprive the enemy of any economic advantages. But while they had admitted the existence of the story I wanted, they had also exhibited an obvious reluctance to allow me to tell it.

Yet why not?

Since Pearl Harbor my fellow Americans had been told officially that the British Navy, backed up by our Navy, was in complete control of the seas leading to Europe. Officially the public had been informed during all this uneasy time that no nation in South America was trading with Germany. Even where the neutral European countries were concerned, supplies to Germany had been popularly supposed to be carefully restricted under the War Trade Agreements. According to the State Department, the economic strait-jacket applied to Germany by diplomatic pressure was everywhere completely successful.

But the real truth was that all our much-heralded diplomatic victories had come very late. For nearly three years the diplomatic strait-jacket had been mostly in the making.

Actually, during all that time Britain had found it impossible both to convoy her merchant fleet and maintain an effective blockade. Even the navicert and ship warrant system had existed mostly on paper. Blockade runners had sailed the seas. Axis submarines had boldly brought looted dollars to Latin-American coastal towns and carried back platinum

and industrial diamonds to Germany. Swiss banks cloaked Axis activities in half a dozen countries. Sweden pleaded fear of Germany, and freely shipped her iron ore and ball bearings into the Reich. Spain alternately received and was deprived of American oil, but still went on selling tungsten to the German war machine. Even from Constantinople, where the Allies alternately courted the Turks and angrily packed up and went home, Turkish chrome kept going forward to the Germans.

During all these bitter years America and Britain had actually been unable to blockade Germany. Instead, while the Nazi war machine overran Europe, they had been forced to fight to destroy Germany's ability to pay for what she could get. In the United States this goal had been the destruction of Germany's ability to finance sabotage and espionage. In South America it had been to destroy her ability to finance propaganda and revolution; in Europe, Africa and Asia her ability to use outside sources of war supplies.

Shrouded in secrecy this fight, I knew, now constituted one of the greatest undercover achievements of the war.

"What makes this story invaluable," I went on, "is not just because you have been successful. What makes it invaluable to me and to every American is that it deals from beginning to end with the kind of men who make wars possible in any age. It shows up once and for all the real undercover battleground of war itself: money and greed, the fore-runners of all conflicts and the object of all conquests.

"No man can understand how to guard peace after victory unless he realizes how unprincipled men can use modern society to make money and bring on total war. No one can cope with similar attempts in the future unless he has the whole story just as you have it. That's why I want complete information on every important case you have docketed and closed. Every word I write will be my own responsibility."

"Subject, of course," the Director of Foreign Funds Con-

trol reminded me, "to the Espionage Act and the military security of the United States."

I repeated it after him: "Subject, of course, to the Espionage Act and the military security of the United States."

The Director studied the faces of the group around the table.

"Well, under those conditions," he said at last, "I think we would have no particular objection. I'll send you written permission in the morning."

As WITH most men who live an active existence, money had already, of course, played a considerable part in my life. Off and on I had made money, lost money, saved and spent money.

But money as an international weapon of war; money fought for by governments, one against the other; money outlawed to make impossible the payment of spy rings and saboteurs; money crippled behind distant frontiers to prevent tanks from becoming tanks or submarines from becoming submarines: such a concept of money was rather dim to me.

Yet it was this broader conception of money, both as a cause of war and as a vital factor in the military operations of a war, which lay behind the story of Foreign Funds Control.

Even a superficial history of World War II, I knew, would show that strict control by the Treasury over money payments had been the first weapon used in our defense. During the five months before Pearl Harbor, the Japanese Embassy in Washington had asked for and obtained no fewer than twenty-six interviews with Washington officials. Each time the Japanese sought just one thing: government approval of Japanese payment arrangements with American oil companies so that American oil, already ordered, could be loaded aboard Japanese tankers held empty for that purpose off the West Coast. Not until two weeks before Pearl Harbor did the Japs give up hope and order their tankers home. Decisive control by an alert Treasury over payments of money had defeated them.

At the same time, I also knew, all the evidence available

indicated that the Treasury's first American embargo on free payments to and from Europe had ruined one of the Nazis' earliest devices for getting ready cash: the ransoming of rich Jews seized and held by the Gestapo.

On the very first day of that embargo a large New York draft, still uncashed in a Lisbon bank, was automatically frozen by the Treasury's action. It proved to be a quarter of a million dollars destined for the Nazis as blood money for the release of a well-known European Jewish industrialist. Its fate ended the efforts of the Nazi ransom gangs already organized for blackmail in Switzerland and headed by a woman, Anna Hochberg.

Already many such scattered incidents had come to my attention, together with dozens of other seemingly unrelated occurrences which had taken place before Pearl Harbor. But precisely why the Government of the United States had acted as it had, and what actual weapons it had employed, were unknown to me. The truth was, the whole story of economic warfare, the weapons used by the Germans as well as by ourselves, and the nature of the early undercover attacks on America by the Axis: all these presented a total mystery to me. Now that I was about to be faced with the record itself in the form of actual cases, the problem would be to make these things plain and understandable, and first of all to myself.

What, then, must I set down at the outset about the situation in which the U. S. Treasury found itself before the outbreak of war?

Well, obviously, one thing that needs to be remembered is that long before 1940 the United States had become the strongest financial power in the world. The failure of the London Economic Conference in 1933 first caused Europe to lose faith in Britain's stability. A mutiny in the British Navy further shook foreign belief in England's ability to maintain her empire. By 1938 Europe's bankers had with-

drawn most of their balances from London, and in New York City lay the surplus cash of the world in amounts running into the billions. Most international trade was no longer financed through London. It was financed through New York.

In 1938 Danish cattle owners did not pay the Balkans directly for their fodder. They paid through Wall Street. Likewise, Spanish importers did not pay Venezuela directly for their oil. They paid through New York banks. Similarly Brazil paid Sweden for her iron ore. In South America even smugglers of goods across the Andes demanded payment in bank drafts on New York, not in uncertain Chilean or Argentinian money.

This was why, in April 1940, the Treasury found itself in a position of such power over neutral countries, and therefore able to deal such damaging blows to the Axis. Under American control was most of the surplus cash of the world.

Where South American countries were concerned, the United States was in an even stronger position. In the Western Hemisphere, Treasury agents sitting in New York could control financial transactions between the businessmen of different Latin-American countries themselves. Normally using its own bank's account in New York for international trading, any blacklisted business house in Latin America usually found it impossible to do any more business beyond the frontiers of its own country. For any South American bank which continued to handle a blacklisted account soon found its own international banking facilities shut off by the American Treasury. Few Latin-American banks could afford to be thus excommunicated. They preferred to drop their undesirable clients until they mended their ways and stopped dealing with the Axis.

This was the actual hidden power that enforced America's Proclaimed List south of the Rio Grande: New York banking power under Treasury direction.

Meanwhile, in the field of international trade all over the world the American dollar was the safest form of exchange in existence. Germany, for instance, was committed to barter. By 1940 she had issued seventeen different kinds of currency; seventeen varieties hedged with all sorts of government restrictions and good only for things the Nazis were willing to sell to outsiders. Such German currency was seldom wanted by foreign merchants who sold goods to Germany. They preferred dollars or gold or pounds in payment.

Hence the initial Nazi scramble to confiscate all the foreign wealth the Gestapo could lay its hands on: gold from the Bank of France, British and American currency, Belgian and Dutch diamonds, saleable foreign stocks and bonds. Without such loot the Nazis foresaw that in time German factories might be forced to turn from making armaments to producing the kind of goods that would satisfy Germany's foreign suppliers. And every German factory was needed for armament making.

This was why, following Britain's lead, the United States Government early declared all German loot unsaleable in America, and finally ruled that all looted American currency and securities were unacceptable for payment unless honest ownership could be proved.

The same strait-jacket was applied to South American transactions with the Axis. At the outset large amounts of cash and war materials came to the Nazis from their industrial companies in Latin America. But from December 1941 on British and American diplomatic missions south of Panama strove night and day to persuade the Good Neighbor countries to break relations with the Axis. The Allies were determined to blacklist all German and Italian spearhead concerns, to shut off all vital Axis supplies, and eventually to put the concerns themselves out of business. Their object was to keep all money, as well as matériel, from flowing to Germany or to Axis agents elsewhere. The best way was to

whittle down to the vanishing point all Axis concerns and their sympathizers.

This was why throughout Latin America the success of the Black List resulted finally in such a wholesale crash of airlines, breweries, insurance companies, drug houses, banks, utilities and railways, plantations and importers. All were Axis controlled. All had to be boycotted, blacklisted, refused supplies from Allied firms, shut off from banking facilities, and eventually put under Latin-American government control.

Everywhere in the Western Hemisphere the aim was the same: to strangle Germany and her partners economically. Control over the payment of money was the main weapon used.

In Europe the character of the struggle was the same. But its outcome was not nearly so clean-cut. A seesaw economic fight, for many months it looked like an endless stalemate. Germany's European neighbors were deathly afraid of her. Not until the last days of 1943 were Sweden's shipments to Germany sharply curtailed. Not until the invasion of Normandy were deliveries of Spanish and Portuguese tungsten cut to nominal quantities.

Meanwhile, therefore, extraordinary measures had to be taken to bid up the prices of all vital supplies and to keep as much buying power as possible out of German hands. In this fight nothing was too insignificant to be overlooked by the Treasury.

Just before D-Day, for example, a few American importers of Swiss watches ordered some extra Swiss timepieces from Spanish importers in Spain. Categorically, Foreign Funds Control refused to allow the purchases.

"Why?" came the frantic outcry. The Army needed watches; the Navy could not get enough for the South Pacific; in many war plants precision watches were a neces-

sity. Why could not American importers buy them from Spain?

The Treasury answer was that since June 1941 no payments for Swiss watches had ever gone directly from America to Switzerland. The money had been paid into blocked Swiss accounts to be held here until the war was over. Free payments to Spain, however, were another matter. Both Switzerland and Spain were honeycombed with German corporations and Nazi-controlled banks. Within twenty-four hours American dollars paid through Spain to Switzerland would be in German hands. No buying power must reach the Germans, decreed the Treasury.

For five years hundreds of such incidents were part of the daily work done by Foreign Funds Control. Even innocent-appearing Swedish payments were more than once blocked to prevent the building up of great stock piles of raw materials in Africa and Latin America—stock piles meant to interfere with our own flow of war supplies to Europe.

Nor was the struggle merely one to keep vital materials or money out of German hands in Germany itself. Just after the North African invasion, Foreign Funds Control blocked all the French banks in North Africa. By this action huge sums of money became useless to their owners—money already transferred from Paris by Vichy collaborationists for use by Axis agents behind General Eisenhower's lines.

In Venezuela, German espionage was finally ended by the discovery by Treasury agents that an Argentinian business house in Buenos Aires, which was making shipments to a Venezuelan concern in Caracas, was in reality a German concern dealing with itself, and using its profits to finance saboteurs. Both shipper and buyer were Latin-American cloaks for the notorious German pharmaceutical concern, *La Quimica Bayer*. Outwardly merely an ordinary commercial house, German Bayer's cloak in Venezuela was actually

busied in shortwaving to German submarines the sailing dates of Allied oil tankers going directly to the European battlefront.

Many such enemy plots were broken up by the Treasury's endless watch over the movements of money.

Scrutinizing every payment, watching every buyer and seller, investigating the financing and the destination of every suspected shipment from Valparaiso to Lisbon, from New Orleans to Buenos Aires, the men of the Foreign Funds Division actually constituted one of the most important firing lines of economic warfare the United States possessed.

In ordinary humdrum life the men on its roster were simply lawyers, economists, brokers, bankers and foreign exchange experts: men mild after the manner of democracy's business pattern, but imbued now with a burning desire to damage the Axis wherever possible.

Yet from Pearl Harbor on they and their agents went all over the globe. Without previous experience in economic war they defeated thousands of Axis transactions here and abroad. At the same time they extended American financial control over half the world, defended China's currency against the Japs, gave vital aid to the French in North Africa, fought to a standstill the 15,000 Axis stooges on the Proclaimed List, forced out of business over 800 Axis concerns below the Rio Grande, whipped scores of hostile financial institutions into line, and kept from the enemy every possible assistance for his war machine. They did all this abroad while at home in this country they seized hundreds of Axis concerns and froze billions of dollars otherwise available to the enemy for espionage and sabotage.

As a by-product, naturally, they piled up in the secret vaults of Foreign Funds Control in Washington one of the most astounding accumulations of information on world business and banking ever seen: data on enemy agents in Spain and Portugal; on businessmen in Tampico, Buenos

Aires and Tangier; on banking directorates in Chile, Japan and Switzerland; on interlocking stockholder controls in Venezuela and Brazil; on telephone companies in Uruguay, wool ranches in Peru, munitions makers in Argentina; on Italian banks with Fascist connections throughout the Mediterranean and South America.

It is upon this vast collection of data that *Blood Money* is based. One has only to skim through its pages to realize that, economically speaking, the Government of the United States has come of age.

IT WAS not always so. Considered indeed as a battle between two opposing forces, the economic struggle between America and Germany which first came into the open on April 10, 1940 more closely resembled a battle between David and Goliath than a conflict between two equally armed antagonists.

Since 1932 America had been struggling with depression, but Nazi Germany had been on the rise. From American consulates, commercial attachés and diplomatic representatives in Berlin had come messages attesting to the intentions of the new totalitarian state:

"Germany is groping for new undercover methods of looting the world. Germany is bartering for raw materials for armament. Germany is openly arming for total military war. Germany is no longer a modern civilized state. Germany has become a medieval fiefdom controlled absolutely by Hitler and his henchmen. . . .

"One third of Germany's heavy industry has been taken over by the Nazi Hermann Goering Iron and Steel Works. Industrialists are being warned to submit or be liquidated like the Jews. All the great combines are being Nazified. Germany's promised 'new social day' has become a Nazi overlordship dominating all German business at home and abroad. . . .

"Every great corporation within the Reich has fallen into line. Fair exchange of goods to assure a normal scale of living has been forgotten. Iron ore is needed; Austria will be seized. The Skoda Armament Works are wanted; Czechoslovakia will be taken. Poland lies across the road to Moscow; Poland will be invaded."

Thus for eight long years ran the tenor of messages from Germany, increasing swiftly in tempo as gradually the famous Four Year Plan of 1936 was put into effect.

Abroad meanwhile, in the years from 1937 to 1940, the Nazis overlooked nothing which might contribute to eventual military victory. From German foreign business concerns poured thousands of secret personal reports to the Wilhelmstrasse, reports on inventions, industrial plants, utilities, shipping services, tanker routes, airlines, military strength and installations, airfields and armaments.

To gather in more and more foreign buying power for Germany, millions of *Reichsmarks*, good only in Germany itself, were sold to all truehearted Germans living outside the Reich. These "traveler's marks" were sold by New York banks, attracted by the profits, and, of course, by such great German shipping lines as the Hamburg-American Line whose officers became agents for the scheme. Germans in New York, New Jersey and Wisconsin, in the Argentine and in Brazil, loyally purchased millions of these marks and the cash proceeds went to Germany.

Throughout the world, also, hundreds of thousands of food packages, ostensibly to be packed and shipped from the buyer's area and intended for consumption in rationed Germany, were sold to Germans anxious for the comfort of relatives back home. But the food packages ultimately delivered were packed in Germany itself with domestic food products, so that all cash proceeds from such purchases flowed directly into the Reichsbank in Berlin.

In America during these years all royalties and profits of German subsidiaries were faithfully paid into Germany to swell the Nazis' buying power abroad. But in Germany itself any concern with its place of management in the Reich was declared a "resident concern" and therefore subject to all German restrictions regardless of nationality. In this manner all foreign corporations were milked by the Nazis, in-

cluding Ford, Corn Products, Elliott-Fisher, Yale Lock and the great Opel Works of General Motors with its over 26,000 workers.

None of these "resident concerns" was allowed to send home any earnings out of its profits. Instead, under the "direction" of the Reichsbank, these earnings were invested in more new German plants designed for armament equipment, or for building oil tankers or ships for the German Navy. As American investments in Germany, such American concerns became a total loss to their owners back in the United States, while German concerns in America were helping to finance the powerful German war machine.

Meanwhile, in all non-German countries patent agreements entered into by German concerns with domestic industries were hamstrung by the refusal of the new German government to allow any new products manufactured under them to reach the marketing stage. In the United States over 3,400 such patents had been leased out to American concerns. But all the important ones—important for total war—were tied up by certain agreements for research and marketing which forbade actual commercializing without the German partner's consent.

Development of synthetic gasoline by the Standard Oil Company was held up by this method, and the marketing of synthetic rubber by Firestone, Goodrich and U. S. Rubber was made impossible by Germany's withholding the complete "know-how" and then forwarding samples lacking in vital ingredients. All this had gone on while in Europe the new German Army swept into Austria, its armoured divisions rolling on new synthetic rubber, its motorized equipment operating on new synthetic gasoline manufactured by the same identical processes.

This was the broad picture of Nazi Germany's economic effort to make herself invincible in war.

In the spring of 1940 as a result, in the Reich Economic

Ministry in Berlin, Dr. Walther Funk, head of the Reichsbank and financial dictator of Germany, directed 200,000 men, professionally trained since 1936 and now assigned to posts throughout Germany, Europe, Asia and America.

Under his hand were all commercial attachés of German embassies, all consulates, every German business house and foreign subsidiary, thousands of Nazi agents and propagandists, and hundreds of neutral concerns whose German control ranged from actual ownership through the use of Swiss, Dutch, Luxembourg and Belgian holding companies to mere executive direction by German-born corporation officers, citizens of the lands of their adoption but with their fidelity to Germany unimpaired.

One weapon alone, ready to Dr. Funk's hand, overweighed any possible advantage the United States Treasury might have found to set against it. This was the great German chemical house of *I. G. Farbenindustrie*, worth two billion marks, head of the industrial "Big Six" in Germany, inheritor since the twenties of the crown once worn by heavy industry.

At Ludwigshafen on the Rhine, 300,000 men and women worked in its huge plants, stretching for three solid miles along the river. Ten thousand chemists produced its dye-stuffs, explosives, synthetic rubber, synthetic gasoline, plastics, fertilizers, fibres, films and pharmaceuticals—known in villages in the remotest corners of the earth.

In the great white, fan-shaped building at Frankfurt-on-Main, 3,000 administrative officials kept straight its complex, world-wide affairs. Alone it did thirty percent of the world's chemical business, while its chemical exports were double those of the United States and Great Britain together. To France, Spain and Italy and to the Near East, Asia and South America went its products, distributed and sold through its own branches, factories and subsidiaries.

Since 1933 its officers had been wholly converted and were

now good Party men. In the Reichstag, as one token of the Fuehrer's favor, sat its President *Geheimrat* Hermann Schmitz.

Here—ready for instant use—was actually a sword like Goliath's: the world-wide network of the I. G. Farben empire, stretching from Spain to China, from the Argentine to Manhattan; all-powerful, yet subservient to Berlin like all other German business houses because of the Nazi Party's indisputable ownership. The German Goliath was unhampered in the use of any of his weapons by any ordinary considerations of law, public opinion, or limited powers of government—least of all in the use of a weapon as powerful as this.

Meanwhile, to oppose this tremendous Nazi machine what existed in America? Nothing. It was still early 1940. As yet no Foreign Funds Control Division had been authorized. No assistant bureaus of investigation had been created, no sections for the licensing of payments, no economic units in foreign lands. Except for Customs regulations no bar existed to the open sale of Nazi loot in the streets of New York, Chicago or any other city in the Western Hemisphere. No American law existed whereby any foreign corporation could be called to account, investigated or restrained. Trade with Germany was perfectly legal and, except for the British blockade, free of restrictions.

Where foreign propaganda was concerned the throttle was wide open. In Washington and in New York, Japanese money financed booklets, articles, information services. In Chicago and New York the German-American Bund roared its loudest. *Gauleiters* spoke impassionedly at Bund meetings and camps. The Bund's official organ, *The Free American*, thundered against the Jews, against conscription, against armaments, against the "British dictatorship" in the White House. From the Middle West came the brassy tones of inflammatory isolationist journals playing skillful variations

on the music of the Lindberghs, the Verne Marshalls, the America Firsters, and the Irishmen of Boston and Manhattan.

Nor could there be any check against sabotage and espionage. No one knew how many Axis paymasters worked in secret, who and where they were or what their agents might do next.

In 1916 millions of dollars in New York, Washington and Boston had been handed out to German agents already in America. So well-heeled had been one agent that he was able to organize Manhattan and Hoboken waterfront unions to prevent shipments from New York docks reaching the Allied armies in Europe. That was Von Rintelen. Von Papen himself, head stooge, had left behind him when he was finally sent packing over two million dollars earmarked for sabotage and concealed among the assets of a German-American concern. Even in 1940 claims arising from the terrible Black Tom explosion were still being paid.

All this could happen again to an unprepared America. Meanwhile, on our shores, Britain's battle against Axis buying power was going almost unfought. Cloaked Nazi purchases of American tinplate, oil and steel, bought through Swiss, Spanish and Portuguese concerns, were running the British blockade. Shipments of oil and scrap iron were going unhindered to Japan. South America swarmed with Nazi secret agents buying and shipping materials to Europe while America did nothing—indeed less than nothing, for the Neutrality Act kept American ships in home waters.

Under such circumstances who could call the oncoming economic struggle one between two equally armed antagonists?

Yet the first battle was already at hand. On April 10, 1940 it came. . . .

At nine o'clock in the morning into the town of Oslo, Norway, rolled the limousine of a German officer. Accompanied

by officials of the Gestapo and the Reich Economic Ministry, this officer marched into the leading bank of Norway.

"Heil Hitler!" he announced. "We take over."

This was in Norway. At noon of the same day in the offices on lower Broadway in Manhattan a newsflash from Washington ran across the teletype:

Norway and Denmark today invaded by Nazi war machine. All Norwegian and Danish assets in the United States frozen by Executive Order. All transactions with Norway and Denmark forbidden except by special Treasury license. All incoming securities from either country to be seized and held until previous ownership proved.

In New York City many a home-going subway rider stared blankly at the evening paper headlines. In Chicago and San Francisco many a businessman opened his eyes in astonishment.

"What's happened now?" asked an uneasy country. "What have we to do with the invasion of Norway and Denmark?"

Explained the Treasury: "All orders to transfer Norwegian or Danish owned property in America are under suspicion. American banks may be held responsible for fraudulent transfers ordered under duress."

This was the official statement of the Treasury. Actually, as every American newspaper already knew, the whole truth was far more serious. At that moment, seated in Norwegian and Danish banks, pistols at hand, the Nazi Gestapo was preparing to turn into cash every Norwegian and Danish owned security held in America. Their plan was to add this cash to Danish or Norwegian accounts already in New York and then force the legal owners to cable the whole amount to Nazi accounts in Switzerland, Spain or South America. Fantastic or melodramatic as it sounds, the plan was under way.

Millions of dollars in America belonging to Norwegian or Danish citizens were thus to be turned overnight into buy-

ing power for the advancing German war machine. Nor was cash alone involved. In Norway and Denmark every American share of stock or bond was likewise marked for seizure. These securities were to be shipped to America, cashed, and the proceeds added to the Nazi war chest.

Taken altogether, the total would be impressive. Large bank balances were carried by Norwegian and Danish banks in Wall Street. Danish milk producers kept huge accounts in New York. Norwegian shipping concerns received payment through Wall Street for the services of their oil tankers, the largest fleet in the world. Dozens of Norwegian concerns did business through Manhattan with European and South American countries. All this money lay in New York. And the business houses of Norway and Denmark were rich with American and British securities easily saleable in Wall Street. All such securities, the Treasury knew, would now undoubtedly be seized and sold.

But not through America! Ran the Treasury's first warning, in effect: "Norwegian and Danish property is safe in the U. S. A. Without Treasury permission nothing Danish or Norwegian owned can be sold or transferred, imported or pledged in this country, not even if the absent owner requests it. You cannot send cash to or do business with Norway or Denmark without first giving Foreign Funds Control the facts behind the transaction. No Nazi loot is to be cashed in America."

This was the real meaning of President Roosevelt's Executive Order of April 10, 1940 which, under the administration of the newly created Foreign Funds Control Division of the Treasury, ordered the immediate "freezing" of all Norwegian and Danish assets in the United States. Swiftly extended to the Low Countries as Hitler invaded Holland and Belgium, it was also applied to Luxembourg, and then to France as the German Army by-passed the Maginot Line and rolled on into Paris.

America had struck her first blow in what was to become an unseen world-wide battle waged by the United States Treasury against Axis looting, Axis spies and propaganda, and Axis buying power.

Foreign Funds Control had come into being.

CHAPTER 4 : *The Dutch Diamond Conspiracy*

ONE OF the first cases to be run to earth by the new fighting division was that of an American citizen, Werner von Clemm.

A New York importer, well born, good looking and carrying himself as an ex-artillery officer of the German Army should, Werner von Clemm, in May 1940, possessed one distinct advantage over his fellow importers in Manhattan. He had a brother in the German Economic Ministry and an accomplice in the German government in Antwerp. This unacknowledged accomplice was head of the German Stone Control Board in the newly occupied Low Countries. Because of these two connections Mr. Von Clemm knew a number of things not vouchsafed to ordinary Americans—things exceedingly valuable to any Manhattan broker who wished to import German-seized Dutch diamonds into New York.

First among these valuable facts was knowledge that the German High Command wanted all the purchasing power abroad it could get; so much so that it was willing to make exceedingly profitable to any trusted agent in America the sale of any loot that could be imported and sold. Into the category of such loot fell Dutch or Belgian diamonds seized in the occupation of the Low Countries; and certainly in any list of trusted agents Von Clemm himself stood high.

Anybody in the Western Hemisphere could get German-looted diamonds for sale who could put up a \$50,000 bond and knew how to run the British blockade. But few agents had such a chance of cornering and disposing of all the looted diamonds of Belgium and Holland as Werner von Clemm possessed. The reason for this was simple. By German decree, no Netherlands or Belgian dealer could sell dia-

monds abroad except through the German Stone Control Board—and the head of this board was Von Clemm's secret partner, Ernst Cremer.

Ernst Cremer held the dealers of the Low Countries in the palm of his hand and could commandeer their diamonds whenever he liked—by threats of concentration camps or by pretended orders from abroad. With such a partner in Europe what chance would New World competitors in the sale of looted diamonds have against him, Werner von Clemm?

Obviously, very little. From a sentimental standpoint it might be too bad, perhaps, for the Antwerp and Amsterdam merchants. But after all, war was war. Someone always profited and someone always lost. This time it would be Werner von Clemm who profited no matter who or what was lost.

Pleasant reflections such as these must have filled the mind of Mr. Von Clemm as he boarded the 8:26 train on Long Island one bright January morning in the early winter of 1941, and started on the trip to his office in lower Manhattan.

On this particular morning, in fact, his manner was even more cheerful than usual. For he had just had a piece of highly agreeable good news. It was that the second shipment of German-seized Dutch diamonds destined for him had reached the Customs House in New York safely. This meant two highly exciting things. First, that the British blockade was a joke. His shipping agent's method of evading it was plainly successful. The second was that a success like this opened up a vista of riches that would more than compensate for any risk run in breaking the American Treasury's new regulations against importing goods seized by the High Command.

It was very doubtful, decided Mr. Von Clemm, whether this risk amounted to much anyway. Many Treasury agents seemed unsure themselves. And in any event, how could an

amateur Treasury agent tell one diamond from another? To be precise, could even an expert tell a Dutch diamond from a German or Austrian one, or one from any other land?

Certainly, legally, there was no bar to importing German goods. The barrier applied only to what these Americans called "stolen goods"—such property as jewels honestly confiscated by the High Command. What real chance of discovery then could there be?

Very little, concluded Mr. Von Clemm.

And settled back to read his morning paper.

It was 9:16 by the time the train reached Pennsylvania Station, and to Mr. Von Clemm, as he rushed for the 8th Avenue subway, New York was as unchanged as ever, and his Pioneer Import Company downtown still as impeccable a New York importing firm as one could desire. Yet unfortunately for the ex-German artillery officer, and all unknown to him, something subtle had happened in the circumstances which bounded his existence—something which was to change completely his opinion of the U. S. Treasury and end forever the career of the Pioneer Import Corporation.

This something was a tiny, invisible brainstorm in the mind of one considered by Mr. Von Clemm a decidedly unintelligent Treasury agent. At that moment, down in the Customs House overlooking the Battery, this Treasury agent was sitting up very straight at his desk, the better to examine a document which was already familiar to him: a Customs declaration for \$100,000 in diamonds bought in and shipped from Germany to a certain Pioneer Import Corporation. It was an ordinary declaration and quite properly filled out as well, even to the notation "Cut In Germany," describing the diamonds. Yet there was something about it which vaguely disturbed the Treasury man.

Some months before, he recalled, a similar package for this same concern had been before him, worth \$40,000 and

also containing diamonds marked "Cut In Germany." At that time the papers attesting to the package's payment and origin had been precisely the same as those accompanying the present package. Nevertheless he had had an odd hunch. Frankly, he had doubted the German origin of the jewels. Holland had just fallen and that had been the first diamond shipment of any kind ever sent to Pioneer.

To reassure himself he had requested confirmation of Pioneer's statement that the gems were really German. He had insisted on a cable to that effect from the German purchasing agent. The confirmation, duly received, had obliged him finally to release the first shipment of stones. Yet even then he had had doubts. After all, he had reflected, the answering cable itself had been merely in reply to one from Pioneer asking for such a statement; and the language used by the German purchasing agent was oddly identical with that suggested in Pioneer's cabled request. Time and again since that day it had struck the Treasury agent that the whole thing might have been a "command performance."

And now, here in New York, lay another German diamond shipment more than twice as valuable as the first, sent by the same German purchasing agent and again addressed to the same New York concern.

The agent sat back in perplexity. Why, in God's name, he wondered, should a business hitherto concerned only with the importing of synthetic stones, hops and lily-of-the-valley pips now suddenly be inspired to import genuine diamonds from Germany?

With even greater care he scrutinized the entry papers before him once more.

He had an excellent reason for doing this. Under the Customs regulations any goods shipped to the United States on consignment paid a duty far higher than did goods actually bought and paid for in the country of their origin. Enacted to prevent "dumping" of foreign products, the wording of

the Tariff Act was very precise. So in his scrutiny the Treasury agent concentrated particularly on the so-called "debit advice" of the German bank in Berlin to which payment for these diamonds had allegedly already been made. And suddenly he gave a low whistle.

In the German bank's debit advice, the word "diamonds" occurred clearly enough; but it had been typed in after the words "synthetic stones"—and the insertion had been made on a different typewriter from the one originally used. Also, if the agent's judgment was good, it had been typed in at a later date. Clearly someone in Germany had tampered with the debit advice for this particular shipment to make it appear that these especial diamonds were the ones that had been paid for; whereas, obviously, the original receipt of payment had been intended to cover only "synthetic stones."

In times like these something quite far-reaching might lie behind such a slip.

The Treasury agent reached for his telephone.

"Get me Washington," he said. . . .

Two months later a group of Treasury men in that city studied with interest some suggestive field reports on the Dutch diamond business, with particular relation to the record and character of a certain Pioneer Import Corporation of 15 William Street, New York, and in especial its president and owner, Werner von Clemm.

Included first was a complete memorandum on the seizure and control of the diamond markets of the Low Countries by the German High Command. According to this memorandum, many millions of dollars' worth of stones had been removed to England before Dunkirk by a British destroyer. But the German invaders, when they moved in, had nevertheless found many more millions in such precious stones.

When Antwerp fell, it had been the beginning of a week end. The bank vaults had been full of diamonds pledged as

collateral for loans. Locked by special timing devices as a precaution against theft, the vaults had been invulnerable until the week end had passed. All their contents had then fallen to the Nazis.

Afterward, the memorandum continued, all diamond stocks had been completely taken over by the Germans. A Diamond Control Office had been created by the High Command and all diamond owners in the Low Countries had been ordered to register every stone in their possession. This accomplished, the Diamond Control Office had then put pressure on owners and dealers alike to sell their jewels abroad so that the foreign currency accruing could be put at the disposal of the Reich Economic Ministry.

Fortunately, the memorandum stated, this idea had been a failure, mainly because American payments for such purchases had been banned by the U. S. Treasury and the American market was the most desirable. The next step of the High Command, therefore, had been to notify all dealers that Berlin itself had received large diamond orders from abroad, so that all diamonds must now be turned in and shipped into Germany. In fact, stated the memorandum, this was still the situation in Belgium and Holland. . . .

To the Treasury men reading this memorandum here was enough to suggest that any diamonds now being shipped by a German purchasing agent to an American firm in New York were pretty likely to be looted gems.

To this likelihood a second European report on the peculiar circumstances surrounding all German foreign trade added greatly.

Since 1937, this second report stated, no shipments of any kind out of Germany had been possible without a special permit from the Reich Economic Ministry. Such a permit signified, first, that the Nazi Government approved the export of the merchandise in question; second, that sufficient payment for it in foreign dollars had been guaranteed; and,

third, that such payment would be sent to the Reichsbank itself. Where German merchandise was purchased by "blocked marks" already actually held in Germany, no more than 50 percent of the purchase price could be accepted in such German currency—the balance must be good foreign exchange.

Because of these difficult conditions—imposed by the Nazi Government—practically all exports from Germany were now handled by Nazi businessmen abroad or by neutral concerns who were trusted agents of the German Economic Ministry. Permits, stated the report, were extended only to people in full favor at the Wilhelmstrasse.

Who, then, was this Werner von Clemm and his Pioneer Import Corporation that he had been able to satisfy these peculiarly German requirements? Such a question might bring up considerations of more importance than a mere falsification of a debit advice to avoid payment of high duty.

The answer came in a third report, this time on Werner von Clemm himself. The New York importer, it appeared, was ostensibly an American citizen and had been since 1932. Born of a good German family, he had married the daughter of a well-known British-American financier in the American Cathedral in Paris. Church records described him as "son of Baron and Baroness Gustave Clemm von Hohenberg of Hesse." Military Intelligence stated that he had been an officer with the German artillery during the first World War. Recently he had taken up residence in Syosset, Long Island, where he lived with his wife and two children, commuting to his office in New York. Originally, he had come to the United States in 1922 with \$50 in his pocket, all that was left to him of what once had been a family heritage extending back many generations. Now he was listed in the *New York Social Register* and possessed a good record of employment.

With one brief exception, in fact, no personal enterprise of his appeared on the record. This venture had been in the wine-importing business—due perhaps to his connection with Herr Von Ribbentrop, himself once a champagne salesman in Canada and now married to a cousin of Von Clemm. Since 1932, however, Mr. Von Clemm's business interests seemed to have been as much German as American. Offered a job with the late W. Rhodes Davis in promoting the German-Mexican oil-barter plan, he had apparently been much in Berlin where his twin brother, Carl, also married to an American, had been engaged in the banking business.

In 1938, the report continued, Von Clemm had at last gone into business in New York for himself. In that year he had founded the Pioneer Import Corporation. He had put up some cash himself and, in return for German blocked marks held in Berlin, he had issued stock to a certain International Mortgage and Investment Corporation of Baltimore, Maryland, of which he was a director.

In its incorporation papers the main purpose of the new company had been described: "to import synthetic stones" from the Idar-Oberstein region of Germany—an apparently legitimate aspiration.

Famous over a thousand-year period, Idar-Oberstein itself was well known even in America. Situated in the Nahe Valley, it was a small town where generations of experience had developed the sureness of hand and judgment needed for cutting synthetic stones. It boasted a profitable industry because the greatest expense of the finished product was for hand labor. The sale of the cut stones brought high returns in proportion to the cost of the imported raw materials.

Where genuine diamonds were concerned, the artisans of Idar-Oberstein had always done a little genuine diamond cutting under subcontract to Belgian and Dutch houses. But since 1939 these contracts had ceased and most of the dia-

mond work now done was on broken-up German stones or jewelry. Idar-Oberstein's real specialty was still the cutting, carving and drilling of synthetic stones, cameos, school ring stones and theatrical costume jewels; as well as the cutting of tiny watch jewels from foreign agate, rough Brazilian aquamarines and synthetic rubies and sapphires.

In 1938, in fact, when Von Clemm had founded his import company he had done so mainly because a large market existed in the United States for synthetic stones of this kind, and haphazard methods of importation had made it difficult for American dealers to get all they wanted.

This difficulty had been specifically pointed out by Werner von Clemm himself to the American Stone Dealers Association when he founded his importing company. His company's object, he had stated, was to provide one single channel for the importing of all such synthetic stones from Germany. Many of the cutters of Idar-Oberstein, he had reminded his prospective customers, operated "from their barnyards." American dealers had been forced to buy in "hand-to-mouth quantities" from them. It would be more advantageous, Mr. Von Clemm had pointed out, if one competent importer dominated the market and worked for the benefit of all. As an argument it had apparently carried the day and had made possible Von Clemm's original importing business.

Legitimately conceived or not, stated the investigators, this had been the beginning of Werner von Clemm's Pioneer Import Corporation of New York City. Werner von Clemm was an intelligent and ambitious man. He might merely be a man who had wished to secure a monopoly on importing synthetic stones from a peaceful Germany. But he could be, if he wished, a skillful antagonist in importing loot of all kinds from the Nazi gangsters.

To the Treasury at this point, as you may imagine, three questions naturally occurred. First, precisely what was this

Baltimore corporation to which stock had been issued in the Pioneer Import Corporation? Second, how had Mr. Von Clemm succeeded in getting the synthetic stones past the British blockade since 1939? Third, what was his connection with the Berlin bank which was financing his purchases in Germany?

To the first question, the answer obtained from Baltimore was that the Maryland corporation consisted of a room behind a dusty door in an office building on Light Street. Obviously a legal address, it was nothing more. Wall Street reports indicated that it was foreign-owned.

The other two questions were answered by British Intelligence.

For some time, it seemed, the British had had their official eye on Mr. Von Clemm. Mail censorship at the Bermuda stopover and intercepts of his cables, which were in code, had established certain very definite things. One was that Von Clemm had evaded the blockade so far by registered mail and fast freight packages, dispatched mainly through Russia and the Far East and even occasionally by air mail to New York from agents in Lisbon. The exact details were not clear.

Meanwhile from Germany, British Intelligence reported that the actual purchasing agent for Pioneer Import in Germany was a concern cryptically known in all communications as "IMICO." This was the code name for the International Mortgage Handelsgesellschaft of Berlin. Imico had credit arrangements at the Reichs-Kredit-Gesellschaft in Berlin, a government banking institution which occupied a position in Germany similar to that of the National City Bank in New York. Because of this fact, the British believed that Imico could be nothing but a Nazi concern.

Reinforcing this belief was the fact that three months previously, in October 1940, the last and most recent inter-

cepts by the British had indicated that new plans were now afoot whereby Imico would establish an agency in Switzerland which could receive shipments from Germany, forward them to America, receive payment from New York, and remit back to Berlin—even though relations between Germany and the United States might be cut off by war.

To the British, this suggestion of Imico's had borne such a strong implication that Mr. Von Clemm enjoyed the full confidence of the German Economic Ministry that they had finally placed him on their Black List for this reason alone; although clear proof was now at hand which showed that Von Clemm's original German permit to do foreign business had itself been secured from a certain Herr Ernst Cremer, once head of the Nazi Stone Control Office in Berlin but now Commissioner for Belgian Diamond Export.

The men who had introduced Von Clemm to this high-ranking Nazi were Carl von Clemm, his twin brother, now an Economic Ministry official detailed to Italy, and Carlos Hoepfner, formerly vice president of Pioneer and presently manager of Imico in Berlin.

In brief, ran the British summary of the matter, Pioneer Import Corporation was an American importing company favored with large credits in Berlin. It was run and owned by an ex-German officer with Nazi ties and had been set up to deal with Nazi Germany on a large, long-time scale, secure against all contingencies, including the possibility of war between the United States and Germany. It was a concern, implied the British report, which could easily be changed from the legitimate business of importing synthetic stones from Idar-Oberstein into an ideal channel for the undercover disposal of goods looted from Europe by the Nazis.

The question for Washington to decide was: was Pioneer already being used by Germany as such a channel, and was

the diamond shipment held up in New York only one of the first in a series which could eventually include most of the looted jewels of the Low Countries?

Fortunately, events impelled the U. S. Treasury agents to swift action.

From the Customs House in New York came a report that expert opinion in Manhattan's diamond market unequivocally affirmed that the stones in question could only have been cut in Holland. To men expert in the ancient craft of stone cutting, it seemed, each country's method of cutting a diamond was utterly unique. On the finished gem an artisan's nationality was signed as unmistakably as if he had written his name. These diamonds—although marked "Cut In Germany"—were unquestionably Dutch.

The U. S. Treasury waited no longer. "Call in the Department of Justice," it ordered.

Suspicion must be made into certainty. . . .

TO THE Treasury, Von Clemm's actions and guilt already appeared as plain as a pikestaff. But it is one thing to suspect a man of selling German loot; it is another to indict and convict him under the laws of the United States, particularly if half the evidence of his crime lies in a foreign country over three thousand miles away. This was the job of the Department of Justice.

On the first day of June 1941, therefore, there arrived in the offices of the Pioneer Import Corporation a subpoena from the U. S. District Attorney for the Southern District of New York. It called for all the files of the corporation, personal and otherwise.

"Absurd!" exclaimed Mr. Von Clemm. "Simply absurd."

As Pioneer's president, he would be glad to give any and all information required by the government. Why not? He was an American citizen, legally engaged in importing. Naturally he had run the British blockade. But that was perfectly within the law. As he had already assured his friends, the Customs agents, there was absolutely no mystery about his affairs. The activities of Pioneer Import Corporation were an open book.

In Washington, in the offices of Foreign Funds Control, Mr. Von Clemm gave his own explanation of the history and background of his importing business and assured the Treasury men of his deep interest in America. Pridefully he pointed out to them his possession of a Revolutionary farmhouse on Long Island, his long status as a taxpayer and, incidentally, his unvarnished opinion of the unnecessary actions of the U. S. District Attorney of New York.

In this connection, he hoped Foreign Funds Control

would not be prejudiced by his distant relationship with Herr Von Ribbentrop. Many Jews were friends of his and he had written his cousin, the German Foreign Minister, some bitter personal letters protesting against the ill-treatment of this race by the Nazi regime. As a result of this action he had in his possession a brusque reply, signed by the Adjutant to Von Ribbentrop, peremptorily requesting him to cease immediately any further communication with the august Foreign Minister. So much for any influence he might have in that quarter.

As for America itself, Mr. Von Clemm regretted only that he had not been born in this land of opportunity; that his ancestors had not been of its pioneers. It was consoling, he said, to recall such German-born Americans as the great Carl Schurz. Or even the contributions made by such foreign-born citizens as Mr. Knudsen and John Paul Jones.

He himself, he informed the Treasury men, was a "man with a mission." Somewhere, he knew, he had a firm place in the economy of the nation. In fact, he had brought with him a detailed memorandum on economic problems which might be useful to the Secretary of the Treasury in solving the confused state of international trade which would undoubtedly obtain after Germany had been defeated. He was taking this opportunity to present it to this department.

And now to come to the real point of his visit:

Since making his application for a license to continue to do business, required by the recent June 14th "freezing" of Germany itself, an extra large shipment of synthetic stones had arrived from Idar-Oberstein for Pioneer Import Corporation, and was being held with the diamonds by the Customs. Since the new shipment was worth \$300,000 could it not be released now before its market value deteriorated? Why deprive American business of much-needed merchandise?

In short, Mr. Von Clemm wanted to know why he had not received his now-needed license. Surely Foreign Funds Con-

trol was not taking seriously the District Attorney's investigation of the German diamond shipment? Frankly, as an American importer and citizen he did not propose to be ruined by silly technical disputes over indefinable Treasury rulings which no one seemed to be able to clarify. . . .

Throughout this arrogant, though slightly uneasy harangue, Werner von Clemm appeared most plausible and convincing. But Foreign Funds Control merely listened in cool and polite silence. The fact was, except for blocking his funds, that the fate of Mr. Von Clemm was out of the Treasury's hands. The Department of Justice was on his trail.

"Application rejected," was the Treasury's only answer to his plea to release his imported goods: an answer given weeks later in writing.

Meanwhile, to the U. S. District Attorney in New York, going over the proposed indictment of Werner von Clemm, the chances of successfully convicting the ex-German artillery officer for selling Nazi loot seemed fairly dubious. Von Clemm might actually be, as Foreign Funds Control believed, a confidential agent for the German High Command, but the United States of America was not Nazi Germany. America was a law-abiding nation living under the legal concepts of the past. Mr. Von Clemm was an American citizen who had to be indicted and legally tried in open court.

And on exactly what grounds?

So far, from the legal standpoint, Mr. Von Clemm had made just three missteps. One was fraud: representing his \$100,000 diamond shipment as paid for in Berlin when in reality it was on consignment to be sold on commission. The second was perjury: falsely representing two shipments of imported Dutch diamonds as German stones. The third was a violation of the freezing regulations of Foreign Funds Control: paying for Dutch diamonds without Treasury license.

Nevertheless, if Von Clemm was to be tried for importing foreign loot, the first of his three missteps was beside the point. Such a fraud was merely an infraction of the Tariff Act. It was his other two missteps which actually showed up his real game: falsely importing looted Dutch diamonds and rolling up American dollars for the Nazis.

Yet to prove this, any successful prosecution must show, first, real proof that the diamonds themselves were looted from the Dutch; and second, that Von Clemm knew it and so had conspired with the High Command and others to dispose of them in the United States.

In a word, *conspiracy* was the basic charge which the District Attorney's office would have to make good if it wished to convict Werner von Clemm of being a Nazi agent. And conspiracy is a crime notoriously difficult of proof. In this case, for instance, what specifically were the overt acts Von Clemm had committed? Where was the undeniable proof that he had really conspired? What were the clinching arguments no defense lawyer could demolish?

A tough baby, the D. A.'s office commented.

Nevertheless, it put its investigators to work, first on the files of the Pioneer Import Corporation, and then on the vast mass of intercepts and cables in the possession of British Censorship. These files of the British contained endless copies of suspicious documents and letters sent abroad by importers, diamond dealers, shipping agents and banks. The answers ranged from Berlin to Brussels, and from Switzerland to Spain. But they were complete and they gave the first clue. Among the copied documents for the early part of October 1940 lay a letter from Carlos Hoepfner, Imico agent in Berlin, to Werner von Clemm, importer in New York. It stated that a certain Ernst Cremer was now "*with them*" in the diamond business. It asked Von Clemm to transmit an enclosed letter.

This enclosed letter was from a Belgian diamond mer-

chant in Antwerp who was offering to sell diamonds to a dealer named Granovsky in New York. Payment for the diamonds, so the Antwerp merchant explained, could be made by sending the money direct to a bank in Antwerp. Meanwhile, "*means of shipping*" were now available, the writer claimed.

To this letter the D. A.'s office found an answer by Von Clemm, and it was exceedingly illuminating. Replying to Imico's Carlos Hoepfner, Von Clemm first vividly described his meeting with dealer Granovsky, and then angrily reminded his Berlin purchasing agent of the impossibility of handling such a transaction in the manner proposed.

Wrote the New York importer: "We would not dare to make anything but a German declaration. The other would undoubtedly be subject to license. It is essential that your diamond invoices show the notation '*Cut In Germany.*'"

Here, decided the D. A.'s men, were two exceedingly interesting implications in writing. One, that Von Clemm himself was the "*means of shipping*"; and two, that in October 1940 an understanding already existed among Carlos Hoepfner, Ernst Cremer and Werner von Clemm whereby Dutch or Belgian diamonds could be shipped to Von Clemm via Berlin with their real place of origin concealed by the statement "*Cut In Germany.*" Moreover, here was an intimation that there was an actual witness in New York City who had discussed the subject with Von Clemm—dealer Granovsky.

The District Attorney's interview with Mr. Granovsky proved most enlightening. It elicited three important facts. First, Granovsky's letter from Antwerp had been handed to him by Mr. Von Clemm himself in the offices of Pioneer Import Corporation. Second, according to Mr. Granovsky, Mr. Von Clemm had told him that if he wished to buy diamonds from Antwerp he, Von Clemm, would import the diamonds for him through Berlin. Third, such a procedure was necessary, Mr. Von Clemm had informed him, because if dia-

monds came direct from Antwerp payment for them from New York to Antwerp would be "frozen" by the U. S. Treasury and the transaction would not turn out satisfactorily at all.

To the District Attorney here was material evidence that Werner von Clemm knew precisely what he was doing—and how. The next important question was: how had the conspiracy started and how many overt acts had actually been committed?

To this query, more intercepted letters and cables soon showed that as early as April 1940 Von Clemm's brother, Carl, had been writing from Europe to New York suggesting the possibility of handling diamonds in the near future.

On May 21, 1940 Werner himself had answered, pressing for more details and adding a suggestion of his own:

The recent Rotterdam developments should make it interesting for us to enter the diamond picture. Please discuss with Cremer.

This damning letter had been mailed immediately after the fall of the Netherlands, while the streets of Rotterdam still smoked from the bombs of Goering's *Luftwaffe*.

Again, on June 3rd, two weeks later, Werner had cabled his agent, Carl Hoepfner, for actual quotations on Rotterdam diamonds and in return had received a letter from the Imico man which stated reassuringly that "the Reich Economic Ministry and the Stone Control Board want to do business with us and you."

As evidence of the good faith of the Reich Economic Ministry, Hoepfner had enclosed in his letter a long list of Dutch diamonds already available, as well as a note concerning them for Von Clemm to forward to a Milwaukee concern. This note identified the unfortunate original owner of the Rotterdam stones as a "very large Dutch concern."

Here then obviously was proof of the beginning of the

conspiracy, and an explanation at last of the first \$40,000 shipment of "German" diamonds passed by the Customs and paid for through the Guaranty Trust.

As if to bolster the D. A.'s case, next came letters from other diamond dealers in Antwerp to different dealers in New York. All reinforced the information contained in the memorandum originally sent to the Treasury on the actions of the Stone Control Board in the occupied Low Countries. Obviously written under Nazi pressure, each separate letter offered—in strangely identical terms—to sell Belgian diamonds. Each mentioned particularly that American consulate invoices in Antwerp would not be required. Attached to each was an identical tissue-paper slip which stated that all payments should be made through the Guaranty Trust Company in New York to the account of Imico in Berlin.

Among these letters was one which the D. A. highly prized. This was a communication from one Jan Verboven of Antwerp to a New York firm, Schamroth & Sons of Fifth Avenue. Apparently it had not been answered quickly enough to suit Carlos Hoepfner, impatiently awaiting Von Clemm's orders in Berlin. For in the list of intercepts following its dispatch lay a follow-up cable sent three weeks later by the Imico agent to his New York importer, Werner von Clemm. It read:

Re Antwerp diamonds—you contact Schamroth Sons, 580 Fifth Avenue. Old customer of Verboven, Antwerp. Inform him of possibility of remitting through Guaranty Trust Company, New York, for account of Imico. Merchandise available totalling \$28,427 including 2% commission for you, 11% of value of merchandise equalling \$3,174 for mailing charges, insurance premiums and so forth to be prepaid to above place against documents. Merchandise to be mailed directly upon cable advice.

To this cable the files held an answer from Von Clemm, dated December 16th. It read:

Your 246: We have paid \$3,174 personally. Rush arrangements all available diamonds to Pioneer Import Corporation not to Schamroth. We demand you discontinue any other procedure. We will give first call on diamonds to Schamroth.

This imperious message was sent by Mr. Von Clemm at the very moment when he had at last committed an overt act. For investigation at the office of the Guaranty Trust Company on lower Broadway disclosed that a payment of \$3,174 had actually been made. Von Clemm himself, without Treasury license, had paid for Verboven's diamonds—a definite criminal act.

Further discoveries now came thick and fast. The files next revealed that on November 26, 1940 a gentleman named Rubin, living in New York, had received a surprising cable from his wife in Belgium. It read as follows:

Shipping possibilities exist. You pay \$247.20 to Guaranty Trust Company for Reichs-Kredit-Gesellschaft as a guarantee for insured \$2,000 shipment account Imico, Berlin.

Mr. Rubin, interviewed by the D. A.'s office, stated that he had indeed received such a cable. He remembered it because at first he had not known what it was all about. Finally, the German Consulate, and subsequently the resident agent of the Reichs-Kredit-Gesellschaft, had told him that the word "Imico" meant the Pioneer Import Corporation on William Street.

Therefore, he had gone to see Von Clemm to tell him that he was no longer in the diamond business. But Von Clemm had informed him brusquely that it was just as well since all Belgian diamonds coming into America were now clearing through the Pioneer Import Corporation.

Here, as if to verify Mr. Rubin's statement, the books of the Guaranty Trust Company again gave evidence. Recorded as of similar date was a cable payment of \$247.20 by Pioneer to Imico in Berlin. On it was the same code num-

ber which Mrs. Rubin in Belgium had put on her package of diamonds by order of the German Stone Control Board.

Yes, Werner von Clemm had bought not only Dutch diamonds looted from Rotterdam. He had also purchased Mrs. Rubin's Belgian jewels, as well as Verboven's and many others ordered sold by the High Command in Antwerp. . . .

As a matter of fact, Von Clemm's trial was brief. The jury was out only ninety minutes.

Mr. Von Clemm made an impassioned oration to the jury. But, in addition to its documentary proofs, the government sprang two surprise witnesses.

One was Mrs. Rubin in person, come from Belgium to swear that Ernst Cremer's Stone Control Board itself had actually sent her mysterious cable to her husband in New York. She had had no personal interest in the \$2,000 worth of diamonds offered. They were the property of one Jacobowsky, a Belgian dealer. Actually worth \$4,000, Jacobowsky had begged her to help him get them to her husband in New York even if only \$2,000 were realized. They were worthless to Jacobowsky in Antwerp because of their registration with the German Stone Control Board. Jacobowsky had hoped that if he should succeed in escaping from Belgium her husband would be good enough to pay over to him whatever might be realized in excess of the \$2,000.

In fact, matters were desperate, Jacobowsky had told her. The German occupation authorities were threatening to deport large numbers of certain people from Antwerp. He felt that he might be spared if he could show the authorities that he was cooperating with them by exporting diamonds and securing cash for the Reich Economic Ministry.

So much Mrs. Rubin told. Equally revealing was the story told by Paul Klein, another diamond dealer of Antwerp.

Ernst Cremer himself, it appeared, had asked Mr. Klein why he was not trying to export diamonds, and had informed

him gently that in his opinion he had better do so. How? Through Ernst Cremer himself. The Stone Control Board, Herr Cremer had said, would take care of the invoice problem in Berlin. The American consul in Antwerp need not be informed.

Incidentally, further evidence showed that the letter sent by Mr. Klein, under duress, to his former dealer in America, offering diamonds and mentioning that no consular invoices in Antwerp would be required, had originally borne no return address. Mr. Klein swore that he had delivered it personally to Ernst Cremer for mailing. When it arrived in New York, however, it had borne pasted on it the famous tissue-paper slip with its payment instructions, and on the envelope as a return address were the words: "IMICO, BERLIN."

For the jury, the evidence was conclusive. In addition to proof of Von Clemm's overt acts in knowingly paying for the shipments of looted diamonds from Belgium, came expert evidence that the diamond shipment marked "Cut In Germany" could only have been cut in Holland. Finally came factual proof that only the Nazi High Command could have arranged for the export of all such goods through Germany.

Sentence: Two years in prison for Werner von Clemm.

Fines: \$10,000 for Mr. Von Clemm; \$10,000 for Pioneer Import Corporation.

Concerning the Rotterdam diamonds, said the Circuit Court of Appeals, in later reaffirming the verdict of the lower court:

Von Clemm took elaborate precautions to destroy or conceal evidence tending to prove that these diamonds were of Dutch origin. He mutilated and falsified his files and enlisted the ready cooperation of his German associates to supply untrue information regarding missing correspondence. . . .

Von Clemm's concealment and falsification of evidence can leave no doubt whatever of his guilt. Nor in the case at bar is it

likely that any evidence could be produced of a character to change the verdict; for the readiness of Von Clemm's German associates to fabricate evidence was so thoroughly established that any testimony they might give would probably be discredited by the jury.

Exit Mr. Von Clemm, American citizen, caught trading in Nazi loot.

DESPITE THE Treasury's initial success in barring German loot, the original Foreign Funds Control group appointed by Henry Morgenthau faced a staggering task.

The truth was that the attempt to protect America and her natural allies had scarcely begun. Almost before France had fallen, act after act of the Nazis all over Europe showed conclusively that Hitler had no more intention of stopping short with a mere military seizure of his new conquests than he had previously stopped with the military invasion of Austria, Czechoslovakia and Poland. Already a new and vast expropriation of property was under way—a kind of violence that went far beyond mere seizure of cash and securities.

In the interval between the German invasion of Norway and Hitler's attack on Russia, payments totalling over eighteen billion dollars streamed into the Nazi till from the occupied countries of the New Order as "cooperation for defense." In addition to this cash tribute, thousands of stolen trucks and cars rattled over the roads into Germany from France, Holland and Belgium, stuffed with looted household furniture, radios and art treasures. Hundreds of trains, loaded with machinery plundered from the factories of the defeated, puffed into the Reich. Cattle, grain and draft animals were lifted from the fields of the conquered.

By June 1941 even the profits and actual ownership of great foreign industrial plants had been transferred to the Nazis. To effect this, new issues of stock certificates were made out to the self-appointed Nazi overlords, sometimes in exchange for bank loans called under threat of personal injury, sometimes simply by dummy stockholders' meetings

from which the real owners were absent. In addition, "trustships" over all seized heavy industries were set up in favor of German combines such as the *Hermann Goering Werke*. Meanwhile, American concerns in Germany were being taken over, lock, stock and barrel. American executives were stripped, searched and deprived of all authority over their plants. Throughout Europe there began to be visible a new pattern of cloaked Nazi ownership of the whole once-nationalistic, capitalistic industrial machine.

By early 1941, indeed, it was obvious, even to the casual observer, that a mere defensive "freezing" of business dealings with the countries under German control would never defend the United States completely against the infinitely varied weapons of the new Goliath. The Nazis stood possessed of a new and well-coordinated machine for total economic war, and they were bent on using it to the full to gather in loot and to pay for espionage, propaganda, sabotage and war materials abroad. What was needed on America's part was a similar machine—or a better one.

How to get it? That was the problem posed by Hitler's successful attack on Europe with its inevitable effect on all Axis and European dealings with the United States.

For the American public the answer came in June 1941. . . .

On the morning of June 17th a certain Wilbur Keegan, attorney and guiding genius of the German-American Bund and its weekly paper, *The Free American*, arrived at his office on East 85th Street in New York City to be greeted by two unexpected communications.

One was a letter from his bank stating that, by order of the Secretary of the Treasury, *The Free American's* bank account had been blocked. It would be unusable until officially released.

Enclosed in the second envelope was the printed text of

a new Presidential Executive Order. According to its terms *The Free American* weekly itself was prohibited from doing any further business until specifically authorized by the Treasury of the United States.

"What the hell!" boomed Mr. Keegan, or words to that effect, running a practiced legal eye over the phraseology of the Order. "They can't do this to us! We're American citizens! This country's not at war!"

A few hasty telephone calls, however, altered Mr. Keegan's preliminary estimate of the situation. Not only, it appeared, was *The Free American's* bank account, and his own, useless, but every other friendly source of money Mr. Keegan could find seemed to be tied up in the same arbitrary manner. On the spot along with the Bund's weekly, was the Bund itself, the German-American Vocational League, the American Committee for German Relief, the D.A.B. Recreation Resort, Inc., the German-American League of Chicago and dozens of lesser fry.

Large type in the daily papers stated that from New York to San Francisco thousands of business houses were in a similar predicament. Every European "national" in the United States, possessed of \$1,000 or more, was included in the new and unexpected "freezing" order. Only Turks were excepted.

Affected were even American concerns with foreign stockholders or liabilities—mining corporations, oil companies, importers and exporters, ten-cent stores and banks, dealers in diamonds and paintings, insurance companies, motion-picture producers, real-estate concerns, charitable organizations, even tearooms. Not one of these could touch a cent of its money, even for payrolls. Not one could do business without first asking the Treasury for an operating license and answering preliminary questions under oath.

The incredible had happened. Forced by Germany into an economic war, the Treasury of the United States had taken

its first openly aggressive step. Arming its new Foreign Funds Control Division with regulations that had "teeth," it had created an economic weapon of the first magnitude with which its agents could act. Overnight, in an America still at peace, it could now crack down on further war supplies to the Axis, and on any more payments to Germany that would add to Nazi buying power. Overnight it could stop the flow of cloaked Axis funds into the hands of Nazi stooges and agents. All sources of such funds, including firms and individuals of any nationality acting in behalf of any inimical foreign interest, were "frozen" by the Treasury's drastic action.

"An American Gestapo!" shrieked the Bund. And echoes came from every other foreign cloak and Axis-lover in the United States.

But, from America's point of view, here was the first public proof of the real power of Foreign Funds Control, its ability to match the Axis in its undeclared war. The men of this new division had in reality opened a new front.

Under the new Regulations, not until Foreign Funds Control was in possession of every last iota of information about any individual or concern affected could such a person get a general operating license to continue even ordinary business. Even when licensed, each one must still make periodic reports to the Treasury Division, and special licenses would have to be issued for all except run-of-the-mine transactions at home or abroad.

This was far-reaching enough to police continually every person so designated, but even more far-reaching were the specifications for the type of individuals affected.

Required to report under oath was not only every European individual and business concern in the United States, but also included was every American concern—bank, brokerage house and insurance house—which had reason to believe it was dealing with any foreign interest in the coun-

tries named. Under such a sweeping proviso practically no Nazi or Fascist agent of any importance could escape—except perhaps a recluse living on hoarded cash.

The idea was basic: to stop dead at a given moment all transactions by everyone who was dealing with the Nazis, under duress or otherwise, and then make careful exceptions in favor of those who were doing legitimate and desirable business. All others would be considered enemies of the United States, to be investigated and properly dealt with.

As a means of preventing any further American war materials from reaching the German war machine, here was a perfect device. For since all payments coming from abroad, as well as going abroad, could now only be made under Treasury license, any purchases of war supplies could be cancelled by simply refusing a license permitting payment. Likewise, since not only German but all European funds in the United States were included in the "freezing," here was a sure-fire way of keeping American dollars from Germany.

Dramatically ended was the sale of *Reuckswanderer* marks and the notorious food-package racket.

In the Western Hemisphere, this latter producer of German foreign exchange had originally been organized by two employees of the Hapag-Lloyd Steamship Line to solicit orders for food packages to be delivered to Germany. Incorporated in October 1939, under the name of Fortra, the activities of the firm were originally approved and probably initiated by the German Economic Ministry. German consulates and the German Railroad Information Offices distributed the firm's literature, and the latter also acted as an agency for taking Fortra orders, ceasing its own food-package business as soon as Fortra was organized.

Although the food-package concern itself possessed only \$6,000 in capital, by June 1941 its sales had amounted to a million and a half dollars, of which \$1,200,000 had already been remitted to Berlin. During this time, of course, no food

had been sent from the United States, nor were the contents of the packages as supplied in Germany worth as much as the customers of Fortra had paid for them. But the business was, nevertheless, a flourishing one, since neither of these facts was ever mentioned to the purchasers.

At one stroke Foreign Funds Control's new action killed this whole enterprise simply by its embargo on money destined for Germany. In addition, there was made available to the FBI the list of purchasers of food packages in this country—over 60,000—along with the lists of sellers and buyers of *Reuckswanderer* marks. As a result of this action alone, more than a thousand dangerous Nazi agents were later seized and interned, or sent to prison.

Finally, the new "freezing" provided a method of uncovering intended espionage, sabotage or enemy propaganda in the United States which laid all over the mere "tailing" of suspected spies or cloaked invaders. Particularly where spies were concerned, the American Government was no longer compelled to be a confused pursuer of enemies who hid in the dark. It was now more like a giant spider waiting in its den for flies to strike the web.

The reason was simple:

In order simply to eat, every possible foreign suspect had eventually to come to the Treasury. Once he had come to it, he had to state all the facts about himself if he were to receive or make any payments at all. These statements he had to make in writing under oath without knowing how much the Treasury's Foreign Funds Control already knew. As a consequence, if he made the slightest false statement anywhere along the line he was liable to be entangled at once. And if he tried to postpone making any statement at all the tentacles of the new division were far-reaching indeed.

Cooperating with the Treasury at the start, in its enormous undertaking, were the Customs Agents, the Treasury Secret Service, the Coast Guard, the Bureau of Internal

Revenue and the Federal Reserve Banks. Under the Federal Reserve the 15,000 commercial banks of the nation were also enlisted as field agents. In addition, at the Treasury's elbow, ready to help whenever called upon, were the FBI, Military Intelligence, the Department of Justice, the British Censorship, and every American embassy and consulate in the countries designated in the Order. Possible, too, now was the final organization of Foreign Funds Control itself, the enlarging of its scope, and the creation or further re-enforcing of each one of its many units.

Legally, the new division held power under the Trading With the Enemy Act of 1917, now invoked because of the national emergency. But practically, the success of the whole plan depended upon two vital factors: an efficient organization of licensing, investigation and compliance; and absolute secrecy until the new Treasury regulations could be announced to the public.

The secret was well kept. Not until the morning papers appeared on June 15th did the public have the slightest idea of what was coming.

Well prepared too was the new division. On June 15th, 1941 in Washington—under the personal supervision of its director, John W. Pehle, Yale attorney—Foreign Funds Control worked straight through the night. For into its quarters in the Sloane Building from countless individuals, business houses and corporations, as well as from the Federal Reserve and the 15,000 commercial banks, began to pour a rushing torrent from all over the United States: license applications, information and property statements. Into the halls of the Federal Reserve Banks from New York to San Francisco that morning crowded excited, gesticulating men and women. Into commercial banks and lawyers' offices swarmed thousands of bewildered aliens and American businessmen. All were stunned with surprise.

Never in American history had such an attempt been

made. Specified as coming under the Order was any form of foreign influence or control over any American enterprise whether openly expressed in agreements, or even potentially through heavy liabilities, stock options or notes. From groceries to great corporations, the effect was amazing.

More than seven billion dollars in assets were affected overnight. To see to it that thousands of businesses did not stall and innocent individuals go hungry, over 100,000 temporary and special licenses had to be granted to cover living expenses and current expenditures.

Even loyal American concerns, if they showed any substantial foreign ownership, were required to report to the Treasury. All transfers of holdings in such concerns were stopped. Like a moving picture when the reel ceases to turn, all activities not one hundred percent American halted abruptly, while questionnaires were filled out that made the income-tax blanks look like child's play.

Called Treasury Foreign Report 300, familiarly known as TFR-300, these questionnaires were inflexible. Even for simply not reporting at all, the penalty specified was a prison sentence and up to a \$10,000 fine. Meanwhile, required to file one of these searching statements were not only foreigners and American concerns or individuals with foreign interests, but every bank and brokerage house which dealt with the individuals or concerns affected.

Followed as the Order was, on July 26th, by the inclusion of all Japanese and Chinese interests, the Regulations called for nothing less than a complete census of nearly all foreign interests in property in the United States, whether reflected in bank credit or debit balances, loan accounts, security portfolios, stock and bond holdings, letters of credit, trust ledgers or safe-deposit boxes.

The impact on American business was terrific.

In the big metropolitan banks where alien monies had

converged, special accounting divisions had to be set up and hundreds of clerks and stenographers hired. Many banks had hitherto never even asked for references when a client offered a substantial deposit at the opening of an account. Certainly nobody had ever foreseen that the United States Treasury would one day request data on the origin, the nationality and the residence of all of a bank's foreign customers. Now all this had to be supplied.

Complicating the whole undertaking, too, was the fact that, under the Executive Order, an individual's citizenship had little or no relation to his exact "nationality." The idea was to control all possible Axis use of property. Therefore, a Swede residing in Oslo on April 10, 1940 was considered a "Norwegian national" within the meaning of the emergency Regulations. A native-born American, caught by the Nazi juggernaut in the capital of the Netherlands on May 10, 1940, was regarded under the Order as Dutch. An English citizen, vacationing in St. Nazaire on June 19, 1940, had to be catalogued by his bank as a "French national."

In some cases the question of what kind of citizenship a customer possessed was more difficult to determine than his residence. Lengthy research was necessary. Correspondence, credit files, and possible affidavits had to be dug up and carefully analyzed. Warehouses and safes of all descriptions had to be turned upside down for possible answers to dubious questions. Only coin-tossing, for example, could possibly determine whether a recently married society couple were travelling under Spanish, Belgian or Italian passports in the terrible spring of 1940. Also, because of the headlong flight of refugees across frontiers and their arrival in the United States with little means of identification, sworn statements were often the only documents available. As a result, bankers became detectives in their task of cooperating with the Treasury, and spent long, tedious hours searching through files, records of transactions and endless data.

In every city and town in the country the Order made itself felt. Nevertheless, even in the midst of collecting, sorting, and acting upon all these millions of facts and figures necessary to put its new weapon of economic warfare into action, Foreign Funds Control had not for a moment lost sight of one of its principal objectives.

Said a short, sweet paragraph in the Regulations, tucked away at the end of the list of nationalities of concerns and individuals affected: "... or any other person who there is reason to believe is a national."

In other words, any *agent* of the countries proscribed, American citizen or otherwise.

This statement covered Wilbur Keegan and *The Free American*, every Bundist in America, every agent hiding behind American citizenship, every concealed paymaster or Axis businessman cloaked behind an American corporation—in short, every possible stooge of the Nazi Economic Ministry and its imitators in Japan, no matter what his disguise might be.

At last the American David was armed against the Axis Goliath, and this time not with a mere slingshot. Now espionage, sabotage and propaganda could be dealt with immediately. Funds and war supplies could be cut off from the Axis instantaneously. More active economic warfare could come later.

LONG BEFORE the web was fully spun, the biggest fly of all had begun to wriggle, hopelessly entangled. This was the General Aniline and Film Corporation, of 230 Park Avenue, New York City.

A year previous, early in 1940, this concern was not much more than a name to the Government of the United States: a big American company with dye works in New York and New Jersey and possessed of several American subsidiaries, notably Agfa Ansco of Binghamton. According to the corporation, it had no parent holding company. According to the statements of its officers—all American citizens—it was not foreign-controlled. It imported little. Its products were American-made. It paid its income taxes.

On the morning of June 11, 1940, however—a month after the Nazis had overrun Holland—among the special applications received by Foreign Funds Control in Washington was one from a New York bank. It requested a license to hand over to the account of a new purchaser in Switzerland some 650,000 shares of the stock of General Aniline Company—shares held by the bank as custodian for a Dutch company.

To the bank the application was routine. All unlicensed transfers of Dutch securities held in this country were now prohibited in order to protect the rightful owners. But to Foreign Funds Control this particular request called for caution. Dated June 10, 1940, the application stated that the sale in question had taken place the previous September.

What had caused such unusual delay in transferring ownership of the shares? Holland had been overrun in the

meantime. Was there a connection with the Gestapo? Who actually owned the Dutch company? Who was the Swiss purchaser? And what were the terms of the sale?

General Aniline, questioned on these points, gave simple but incomplete answers. The officers had been busy. No instructions had been received before the last meeting. The stock had accordingly been voted and dividends paid as usual. Exact information about the Dutch shareholder was not at hand, but the Swiss concern was wholly Swiss and well known to the officers since it already held other stock in General Aniline.

In fact, stated General Aniline's President, Mr. D. A. Schmitz, he himself had just come from Switzerland where he had conferred with this same Swiss purchaser. He had just arranged to buy back from them part of their General Aniline stock in behalf of his own corporation. The Swiss concern, it seemed, held 95 percent of General Aniline's common stock, and Mr. Schmitz had contracted to buy over 50 percent of it for the American company.

The reason this Swiss company, I. G. Chemie, now held so large a number of shares, explained Mr. Schmitz, was that they had previously purchased another block of General Aniline shares from a second Dutch company. That purchase had also been made in 1939, in the month of September. This being so, Mr. Schmitz believed he should at this time ask Foreign Funds Control for retroactive permission for the transfer of this earlier stock as well as the later. Mr. Schmitz had brought from Switzerland the necessary substantiating documents on the purchase. Could not both matters be expedited so that he could carry out General Aniline's contract to buy from I. G. Chemie the agreed 51 percent at present under consideration?

In brief, asked Mr. Schmitz, would Foreign Funds Control now license the two previous transfers of stock from both Dutch companies to Switzerland made in September

1939, so that his present proposed purchase from the Swiss company could be completed?

Overburdened as the Treasury Division was at this time, this triple request seemed worthy of the most painstaking consideration.

Yes, the transaction could be expedited, replied Foreign Funds Control. But out of his knowledge would General Aniline's president be good enough to reread and fully answer the Treasury's original questions:

What was the Swiss concern's ownership, in terms of the "nationality" of stockholders' control? What were the terms of I. G. Chemie's purchases from the two Dutch companies? Also, please, the date of Mr. Schmitz' visit to Europe, his itinerary, and the ship and date on which he had returned?

Polite questions, certainly, and as politely answered. In fact, attorneys for General Aniline replied to these queries, including in their reply affirmative cables and affidavits of sale from the Dutch companies. Also a cabled statement, signed by the Swiss Director, of the Swiss concern's ownership as Swiss and wholly independent in policy.

Unfortunately, stated the lawyers, intimate details of precisely what individuals held the Swiss concern's stock could not be ascertained because, under Swiss banking law, such information was entirely confidential. The company's stock, like that of most Swiss concerns, was bearer stock and as such not registered by name on the company books. However, Mr. Schmitz could vouch for the Swiss concern's integrity; he knew its directors intimately, and he had but just returned on May 28th on the American Export Line. Since certainly all desired information had now been supplied by General Aniline regarding the transaction, could not the transfer be approved?

Replied Foreign Funds Control, not quite so delicately this time:

Thank you, but what actual proof have we yet been given of I. G. Chemie's real ownership? Both Dutch concerns offer proofs of sale, but it also seems that both received the latest dividends and voted on stock which, according to your statements, they had already sold last September. What was the reason for this peculiarity? Exactly who gave the New York bank its instructions to make the transfer? And when?

There was little embroidery, perhaps, in these questions but there was gratifyingly less in the reply. For the New York bank itself now dug into its records to help complete the answer—and it was a honey.

The bank had received its instructions, it appeared, not by mail or cable, but in a note delivered to it by hand, together with the necessary documents, by a certain Dr. Duisberg of Rockefeller Center, an American patent attorney and formerly a director and minor stockholder of General Aniline. During a recent trip to Switzerland he had been entrusted with the note and documents by the director of a Swiss banking house with which he carried on personal business. Transatlantic mail was uncertain, stated Dr. Duisberg, and indeed previous letters had actually been lost in transit.

When had Dr. Duisberg returned?

On May 28th—on the American Export Line.

What relation might Dr. Duisberg be to a certain Dr. Carl Duisberg, once leading chemist of Germany's chemical trust, I. G. Farben?

Son.

And what relation was Mr. D. A. Schmitz to *Geheimrat* Hermann Schmitz, head of this same I. G. Farben?

Younger brother.

And both were American citizens?

Oh, yes.

"This is one of our difficult cases," stated Foreign Funds Control coldly. "No decision for the present."

Lack of warmth, however, did not appear to discourage General Aniline in the least. By October 1941, pressure on Foreign Funds Control by General Aniline officials had become intense. Officers of the company, or its attorneys, were descending weekly on the State and Treasury Departments in Washington. General Aniline's vice-president was now in Switzerland, cabling more proofs of everything. Mr. Schmitz was swearing to further and even lengthier affidavits. Both Dutch concerns were cabling again and again that they no longer had any interest in the stock. From abroad the Swiss company itself was demanding that the Swiss Minister intervene.

On October 16th, the Swiss Minister did intervene. The Swiss Government, it seemed, had informed him that I. G. Chemie was absolutely Swiss-controlled. Its stock was 52 percent Swiss, 24 percent American, 10½ percent German, the rest scattered. The Swiss Government itself would appreciate immediate action.

Asked General Aniline's attorneys: could any reasonable mind have further doubts concerning the transaction?

But for some reason Foreign Funds Control acted in a most bureaucratic and thick-headed manner.

"Still no decision," was the stubborn word from the Sloane Building. Where there was such heavy smoke, the Division had decided, there must somewhere be one big fire.

There was. . . .

On the night of December 11, 1941, when a Treasury chief and his crew boarded the night plane from Washington to New York, the chief was a very nervous man. He was only one of hundreds of Foreign Funds Control men setting out on similar errands all over the United States. But his was the war duty of taking charge of General Aniline as Probable Enemy No. 1. Pearl Harbor still smoked. And investigation by Foreign Funds over the past many months had

made certain the type of antagonist he was about to cope with.

Secret advices from Switzerland in his brief case stated, for one thing, that the Swiss bank which had bought General Aniline's shares at the time of its original floating had been beyond question an agent for the great German chemical trust, I. G. Farben; that the directors of I. G. Chemie itself had been, and still were, nominees for I. G. Farben; and, moreover, that certain of General Aniline's officers knew all this and were themselves nothing less than German agents.

Furthermore, information from South America stated that \$900,000 for subversive work had just gone to the German Embassy in Brazil direct from I. G. Farben's subsidiary in that country.

To cap these reports, investigation by the British had resulted in London's putting General Aniline on the British Black List. The British stated as a fact, one confirmed by the Commissioner for the Netherlands Indies, what most Americans still dismissed as a pipe dream: the existence of I. G. Farben's world-wide chemical empire, the gearing of all its cloaked subsidiaries to espionage and direction of sabotage, and its close partnership since 1936 with the Wilhelmstrasse in Hitler's Four Year Plan for total war.

In the opinion of the realistic British, General Aniline was without doubt an I. G. Farben cloak in America.

To the Foreign Funds Control chief, these facts spelled out just one conclusion. Sturdy American John E. Mack might now have succeeded D. A. Schmitz as head of General Aniline and the board of directors might now boast many well-known and respected Americans as evidence of outward respectability, but, despite such desperate attempts to Americanize the façade of the company, underneath the directorate and the layer of patriotic American officers were the same old I. G. Farben men, German tools in complete charge of all General Aniline's operations. In the present

emergency, how much hesitation would be shown by such men in using to the full the perfectly constructed machine in their hands?

If the Treasury's facts were correct even statements under oath by certain of General Aniline's officers had been consistently and studiously false. Only considerations of the greatest importance could have warranted the construction of such a complex web of international family ties and cloaked holding companies; only the most sinister of motives could have supported such a sustained policy of concealment, designed to dupe the press, the public and the United States Government itself.

What could be expected from them now?

In the General Aniline offices in New York, the Treasury chief drew a long breath and sent first for the employment contracts. All, high and low, called for vacations in Germany. Among the thousands employed in the various plants, hundreds of German citizens were listed. The profits of the concern ran into the millions. Sixty-six millions comprised the book assets. Money was available for any purpose.

And the Albany plant swarmed with Bund members. Scores of minor employees filling obscure positions had been hired on the recommendation of Nazi-run agencies in New York and Berlin. The foreman of the New Jersey plant was himself Eastern *Gauleiter* for the Bund. In all the subsidiaries worked German technicians and chemists whose "know-how," the company's executives swore, was absolutely necessary to the life of the business.

What was even more disturbing, examination of the records showed all types of agreements with American war-work concerns. Orders on hand included jobs for the U. S. Navy Yards and airfields, and comprised every form of confidential contract. Blueprints and films were part of the concern's business. Enough confidential information was available to win another Pearl Harbor.

Who was getting it—and how?

Strangely enough, the first break in the case for Foreign Funds Control came from a source outside General Aniline. Within the week of the Treasury chief's arrival in General Aniline's offices, seizure and padlocking by another Treasury crew of still another New York concern, the Chemnyco Corporation, had confirmed the existence of an I. G. Farben Committee of Political and Economic Information, associated with the Nazi Government and with headquarters in Berlin.

Milked files in the offices of this Chemnyco Corporation showed that for years full information on America's war plants, inventions, production and raw materials had been reaching this Berlin headquarters. Weekly reports had been going forward, costing as high as \$240,000 annually, based not only on limited, personal observations but on comprehensive digests of technical journals and information services—even the *Kiplinger Letter* was included—the subscription prices for all of which totalled over \$4,000 a year.

Destroyed records and missing correspondence prevented the Treasury agents from reconstructing the full picture of all this company's activities. But enough remained to show the immense scope of the interrupted job. Still in the Chemnyco offices were maps of railways, highways, mineral industries, oil basins and pipelines, oil-tanker routes, electrical transmission lines, topographical maps of the American shoreline and harbors, and even a map entitled "West India Islands and the Approaches to the Panama Canal."

Chemnyco held more than 3,000 I. G. Farben patents on various chemical processes, and the list of their American users extended over sixty-four closely typewritten pages. Hundreds of America's leading industrial plants were on the list. Because of the resultant relationships over a period of years, Chemnyco had gained access for hundreds of Nazi executives, chemists, officers and officials to the leading fac-

stories of the United States, from aluminum and rubber to gasoline and aircraft. Even as late as 1939, when the *Luftwaffe* was overwhelming Poland, Claude Dornier, son of Germany's leading airplane designer, had been thus introduced by Chemnyco into airplane plants on the Pacific Coast.

What made Foreign Funds Control still more immediately apprehensive, however, was the fact that included in its haul at Chemnyco was an overlooked diary of a trip to Germany, kept during 1927 by a former Chemnyco attorney. In this diary, page by page, were the original, intimate notes on certain discussions in Germany, during which it had been proposed that a company such as General Aniline be formed in America and ten million dollars' worth of its stock be purchased for control by I. G. Farben through a Swiss concern.

And interesting enough, Mr. D. A. Schmitz, until recently head of General Aniline, had formerly been President of Chemnyco!

All this threw a very bright light indeed on the feverish activity of General Aniline's officers in the 1940 stock-transfer mystery. Obviously for years control of General Aniline in America had been held for I. G. Farben of Germany through its obscure Dutch and Swiss cloaks in the form of stock proxies voted by Germans who enjoyed American citizenship. These men, still thoroughly German at heart, with German ties, associations and fidelities, had gone posthaste to Switzerland to try to circumvent the anticipated Treasury "freezing" of Dutch securities through the arrangement of a fake sale—predated—from the Dutch cloak to the Swiss one.

Thus neutral Swiss ownership could be claimed, and a million and a half shares of General Aniline sold back to the faithful German officers in America. I. G. Farben would then be armed with American cash which the Wilhelmstrasse could use in Spain, Sweden and South America, while General Aniline itself became an incontestably American

company perfectly set up for a spy and sabotage empire which would put Chemnyco in the shade.

Such had been the Nazi plan.

Armed with this new, indisputable information, the next break came quickly enough for the agents of Foreign Funds Control. In the offices of General Aniline a former confidential secretary confessed.

He had been ordered personally to destroy the company records. General Aniline was an I. G. Farben organization, lock, stock and barrel, including Agfa Ansco and all its related subsidiaries. All the stock-shuffling had been the smallest part of the plot. Not only had weekly reports in German been part of General Aniline's espionage services since 1936, but in fact these reports were still going out to Berlin by means of dummy addresses and circuitous routes whose initial destinations were as widely separated as Lisbon and Vladivostok.

In them were films of secret military equipment copied from negatives entrusted to Agfa Ansco for development even in advance of official censorship. Included were blueprints and microfilms, as well as reports on production and designs of U. S. battleships. Agfa Ansco had apparently had a standing agreement with all its customers that movie films bought from them would be developed in their laboratories. Buyers of these films included the Army, the Navy and the Marine Corps. Such films might have been exposed anywhere, from New York coastal defences to strategic areas in Latin America. Once sent to Agfa for developing, copies could be forwarded to Berlin while the original prints went innocently back to the owner.

Moreover, General Aniline's agents had unchallenged access to nearly 3,500 industrial plants, including U. S. Naval air stations, because of its patented Ozalid process for reproduction of blueprints and drawings. Plants using this method naturally had the machines serviced by General Aniline em-

ployees, so that entrance to their reproduction departments was wide open. Also, through the company's exclusive Ozaphane process of microprinting, films of the Ordnance Corps' and the Navy Department's latest developments were available. One such film, telling the complete story of the Navy's newest battleship, was found copied completely on 35 mm. film and ready for immediate dispatch.

Here was espionage de luxe!

Much digging in the files of the Binghamton subsidiary, Agfa Ansco, revealed that I. G. Farben had even financed picture-taking expeditions, including the trip of a former German aviator across Canada, a Peruvian expedition to the industrial diamond area, and a certain tour by air of Alaska so thorough that on the flier's return he had been consulted by American Army officers concerning additional Army air bases in that territory.

Everything General Aniline touched had at once been available to the Axis—and still was, despite the lack of actual proof of the particular individuals involved.

"Block every executive's bank account; seize General Aniline for the United States Government—and call in the FBI," recommended the Treasury chief. And drew a sigh of relief. The biggest fly of all had finally been caught. Foreign Funds Control had been right from the beginning.

Even today, although the Treasury files bulge with scores of later and equally incredible cases, General Aniline, cloaked agent for I. G. Farben, still heads the list.

This is no mean distinction. For after June 1941 more than 3,700 business enterprises in the United States, in addition to numerous individuals, were blocked and investigated by the Division. Of these, some were handed over to the wartime control of the Alien Property Custodian. Others were liquidated or voluntarily went out of business. Twenty-one hundred more carried on subject to Treasury supervision—not because they were enemies, but because they were

owned in whole or in part by foreign neutrals or controlled by persons in occupied territory, and so came under the provisions of the Executive Order. Altogether, the cross index of "watch-list" names finally contained 171,000 cards.

Yet of all the cases of actual Axis agents caught in full swing in America, and as the perfect example of what up-to-date streamlined espionage can be like, the men of Foreign Funds Control still regard General Aniline as "the biggest aspidistra of them all."

ONE OF the main advantages of the pre-war "freezing" of European-controlled concerns in America was that it provided the American Government with information, otherwise difficult to obtain, on the identity and probable hiding places of Axis agents. Without Foreign Funds Control even the FBI itself might have found difficult the job of preventing in advance all the Axis espionage, sabotage and propaganda which would otherwise have assailed us.

After July 1941, however, every foreign-owned or controlled concern which could have spearheaded an attack in the field of undercover warfare was listed in Washington. Its normal operating expenses were checked periodically and permitted only under license. In the files of Foreign Funds Control, original applications for its necessary license to do business disclosed all the facts of its ownership, officers, directors and financial background and purpose. If such a concern tried to make an unlicensed expenditure it faced the possibility of having its property and offices put under the supervision of a Treasury agent. Unusual or unexplainable business transactions were equally inadvisable.

Here was none of the *laissez faire* of 1916.

One result was that, after December 7, 1941, Axis sabotage agents found it impossible to follow up the Jap attack on Pearl Harbor with any similar series of attempts on the United States itself. From San Francisco to New York, Foreign Funds Control acted without delay. During the three days from December 7th to December 10th it installed its agents in over 1,400 enemy concerns. Each one was already well known to the Treasury, thanks to its preliminary checkups. Action now was accordingly direct and swift.

In the case of Wilbur Keegan and the German-American Bund, FBI agents, even in wartime possessed of no right of entrance without a warrant, stood outside in the street in Yorkville while Foreign Funds Control men proceeded to padlock the property. Files, names, records of payments, telephone calls, letters, cables—all the *sine qua non* for criminal investigation—were then turned over to the FBI for action, with results now widely known. *The Free American* was never published again. The Bund completely collapsed.

So effective, in fact, was the procedure of Foreign Funds Control under its wartime powers, and so widespread its application, that it is not too much to say that the actions of this division throughout the week following Pearl Harbor wiped out at one stroke all possibility of any grand-scale sabotage or espionage in the United States. So enveloping was the Treasury's economic net that thereafter no enemy paymaster could possibly finance his agents. The Axis found it difficult even to send bare living expenses to its undercover men.

One proof of this is that the eight saboteurs who were later landed by submarine on Long Island were found to have been forced to bring their cash with them—\$177,000 in \$50 bills, \$172,000 of which now lies in the Treasury's possession in Washington.

In the case of a certain Staten Island air-raid warden, eventually convicted of supplying information to Nazi submarines, all payment to him for his services had to be relayed in miserably small amounts to New York bank accounts by Honduran and Cuban agents of Germany. Larger amounts reaching the warden, even from obscure Central American countries, would have attracted the immediate attention of Foreign Funds Control and detection would have been inevitable.

Just how difficult it actually was for spies to eat and live decently on their wages from Nazi Germany was evident

even before Pearl Harbor—as early as the sensational Brooklyn spy trial of September-December 1941. In this case, the average weekly spy dole of each of the thirty-three men and women on trial for treason was shown to be not much more than that made by the average intelligent stenographer. Living mostly on lavish promises sent by short wave from Germany, actual cash—no longer available in the United States for the purpose—had to be smuggled in to them by ships' cooks, barbers and seamen, and through Mexico in inconspicuous and scanty amounts. The lush extravagance of the unhampered spy world of 1916 was already a thing of the past.

Months before our entry into the war, then, there remained no powerful enemy paymasters to be unmasked in the United States. Money to finance enemy agents was unobtainable. Would-be spies and saboteurs in America were caught as if in a vise.

Still remaining, however, was the possibility of receiving instructions from and sending information to Germany on the part of agents as yet undetected and temporarily able to finance themselves. Just how the action of Foreign Funds Control affected such persons, the curious case of the B. Westermann Bookstore in New York City shows very clearly. . . .

To many New Yorkers, old and new, the Westermann Bookstore at No. 20 West 48th Street remains as a well-remembered though vanished landmark—the story of its demise touched with sadness.

A port of call for booklovers, readers of current American fiction and magazines, seekers after books on unusual and scientific subjects, addicts of foreign art volumes of paintings and buyers of European magazines and German, Spanish, French and Portuguese books, B. Westermann was one of New York's most attractive bookstores for nearly a century.

Although B. Westermann himself and several of his successors had long departed from the scene—all dead for many years—distinguished, well-liked Ernest Eisele, Treasurer of the American Bookseller's Association, former head of Brentano's Foreign Book Department and bookman of renown, carried on the store's tradition in the grand manner.

Founded in 1848 as the first import house for German books, B. Westermann Co., Inc. had had an uninterrupted record of fine book selling for 93 years. For four decades after its founding it had been the only large importer of German books in the United States, and the most important distributor of scientific literature used in the building up of America's college and university libraries.

In the early thirties it had even opened an American bookshop in Berlin, and had developed an export business for American books, chiefly to Switzerland, Portugal, Spain, Hungary and South America. This export business had started first on the barter basis; imported books published abroad had been balanced against exported American books. But, as most American publishers knew, it had soon developed into a cash business because more American books were sold abroad than foreign ones imported.

By 1940, in the international book trade and in the world of ideas, B. Westermann held a unique place. Few people dreamed that such a concern could ever be caught in the tentacles of the Nazis.

In June 1941, however, the Westermann Bookstore, like all other concerns with European interests, found its bank accounts blocked and its officers required to report to Foreign Funds Control in order to secure a Treasury license to continue in business. A ninety-day license was instantly granted—but good only in the United States, not abroad. To continue its foreign trade, particularly with Great Britain, Portugal, Spain and South America, B. Westermann would have to file a special application for a broader license.

This special application, promptly filed with Foreign Funds Control, disclosed some unexpected facts.

One was that the Westermann Bookstore in New York, with twenty employees, owed over a hundred thousand dollars to its own bookshop in Berlin: B. Westermann of No. 13 Potsdammerstrasse. The parent company had scarcely over three thousand dollars in its New York bank account. Also, while ostensibly an American concern, B. Westermann's principal stockholders appeared to be three German business houses, all located in Berlin. The sole American stockholder, Ernest Eisele himself, held only 60 of 1000 issued shares.

In addition to Ernest Eisele, the bookstore's directors were three American citizens of continued American residence. Their names were: Schroeder, Reissig and Fasse. All three were naturalized Americans of German birth. Of these three Teutonic gentlemen, Hermann Schroeder was Vice-President and Secretary, Albert Reissig was Treasurer, and Friederich Fasse was both Assistant Treasurer and nephew-in-law of the firm's President, Mr. Eisele.

To Foreign Funds Control, the foreign business affairs of a bookstore under such direction seemed especially worthy of note. And here the eyes of the Treasury men opened wide. On the lists of Westermann's 800 active buyers and correspondent bookstores scarcely any country in the world was unrepresented: Switzerland, Sweden, Spain, Portugal, Brazil, China, Japan, Mexico, the Argentine, Chile, the Netherlands—the list covered Europe, Asia and the Americas.

Also, before the invasion of Poland and the consequent British blockade, the company's imports from Germany had run as high as \$60,000 a year; and the falling off of imports of German printed matter since the blockade had apparently been balanced almost at once by a sharp rise in the influx of such books, pamphlets and magazines from Switzerland.

Put together, these simple facts suggested an obvious in-

ference: as an agent for distribution of Nazi propaganda and the forwarding of secret information to Nazi agents all over the world, B. Westermann, if its owners chose, might play a devastating role.

The mere location of the store itself and the character of its customers was something on which to reflect. Situated five blocks from the North River docks, seamen and stewards from the German and Italian lines found it easy of access. Germans of all descriptions normally frequented its broad, quiet aisles; browsing was encouraged. Nor were ordinary off-the-street book buyers its only customers. Officials of the German Consulate moved briskly in and out. Well-known propagandists and Bundists visited its shelves for authoritative, current material. German Government representatives stepped in for little offhand chats with Mr. Eisele.

Moreover, the cables and mails were open to its advices of shipments, and the store did business with a dozen countries. As a matter of fact, the store's large imports from Berlin were matched by hundreds of small, varied export shipments sent all over the world. Nothing could be easier, the Treasury men realized, than to insert in such shipments innocent-appearing code books containing keys to secret information.

Meanwhile, in New York City itself, here was a headquarters for all manner of up-to-the-minute Nazi reading material, printed matter straight from the horse's mouth, invaluable to propagandists, unscrupulous writers, speakers and newspaper syndicates.

Furthermore, one of the Westermann clerks, a certain Max Blank, had already been picked up by the FBI and indicted with 32 others as a German agent in the Brooklyn trial already mentioned. He was known to have distributed Nazi pamphlets and to have sold insignia of the Nazi party, as well as anti-American, anti-Jewish and Bund material,

carrying on much of his work under the very noses of the Westermann officials.

To round off the picture, every officer of the bookstore, it seemed, had friends and/or relatives in Germany. The passport records of the State Department showed that all had made recent trips to Germany—some of them repeatedly. Ernest Eisele had gone every year since 1926. Friedrich Fasse had gone in 1936, and in 1940 had made two trips, one of which was still under suspicion by the passport officials of the State Department. In fact, on this particular trip Mr. Fasse had entered Germany without a visa but with the full approval of the Gestapo. Evidence in the State Department indicated that, instead of arresting him at the Swiss border, the German Secret Police had escorted him to Berlin. Such a state of affairs suggested that Mr. Fasse, at least, was in some favor at the Wilhelmstrasse. The other three of B. Westermann's four directors might personally have less stomach for dealing with the Nazis, but considerable pressure could very easily be applied to them through their German relatives.

Clearly, then, any extension of Westermann's license to allow it to continue business with Great Britain, South America, Spain or Portugal held possibilities which must be carefully weighed.

"Application denied," wired Foreign Funds Control on August 21, 1941 to the B. Westermann Company on West 48th Street.

This was a decision which Ernest Eisele might naturally have been expected to resent. Yet the wire, oddly enough, brought not Mr. Eisele as President but Assistant Treasurer Friedrich Fasse to Washington—and in great perturbation.

Mr. Fasse proved to be a blustering individual who professed to be much upset. His company had had no difficulties with the Government during the last war, he pointed out angrily. He could not understand why the store should now

be under suspicion—if it were under suspicion. He did not mention the fact that Westermann's present owners had not then been in control or, except for Mr. Eisele, even in the country. Nor did he allude to the fact that Schroeder, and Fasse himself, had actually at that time been in the German Army.

Instead, Mr. Fasse arrogantly informed the Treasury that its delay in amending the store's present restricted license was most irritating. What was the idea? B. Westermann had to have foreign connections. If necessary, he would take up the subject with President Roosevelt personally and have something done about it.

Mr. Fasse's brother-in-law, he went on to reveal, had been captain of a Standard Oil boat which had rescued a number of persons in the wreck of the dirigible *Akron*. As a reward, the President had presented his brother-in-law with a fine gold watch. In Mr. Fasse's judgment, the Division would do well not to interfere with the Westermann bookstore.

This tirade was met by Foreign Funds Control quite calmly.

Before discussing Mr. Roosevelt, its representative said gently, the Division would like full information concerning B. Westermann's importations from Switzerland. Also the names of all institutions and individuals purchasing political books and pamphlets. Also a list of all Westermann employees, their citizenship, birthplace and time of arrival in the United States. There might be included, too, the company's stock books and balance sheets from 1936 to 1940; its general accounts since 1924; and, finally, a full report on the history of B. Westermann and its relations with its chief stockholders in Berlin: the August Scherl Company and *Cautio Treuhander*.

Once these facts were in hand, stated Foreign Funds Control, a more intelligent reconsideration could be given to B. Westermann's needs.

They would be furnished, boomed Mr. Fasse. They would be at once furnished. . .

A month later agents of Foreign Funds Control studied with interest B. Westermann's voluminous report.

Viewed as an ordinary bookstore, certainly, B. Westermann seemed peculiar in more respects than one. To judge from the record, Ernest Eisele from the outset had received between eight and nine thousand dollars a year. The company itself, however, had lost on an average of \$25,000 annually ever since 1926, with the total loss now rapidly nearing a cool half-million dollars!

What kind of business was this?

In the year 1937, moreover, when the losses seemed to be increasing rather than decreasing, Mr. Eisele had received a bonus of \$30,000 from the German stockholders in Berlin. To account for this unusual bonus only one explanation appeared: Mr. Eisele had succeeded in extricating the bookstore from an expensive building lease.

Otherwise, to judge only from the report, year after year the losses had been met by persistent or purely humanitarian stockholders who made only occasional futile attempts at reorganization. The store had never made money, and no money had ever been paid into its treasury from any source other than Germany. The air of mystery thus suggested seemed further heightened by the fact that in the year 1936 *Cautio Treuhand* of Berlin, although apparently only a minor stockholder, had itself optimistically invested—despite the gloomy picture presented by Westermann's financial statements—an additional \$64,000, receiving in return 280 shares of stock. These shares had then been assigned to Mr. Eisele as voting trustee in America for *Cautio*.

This latter fact caught the Treasury's eye at once, because Mr. Eisele's trusteeship for Westermann stock was not the only trusteeship he held, and Foreign Funds Control

knew it. Reports from another German-owned concern in New York had already brought out a number of correlated facts not included in the Westermann application. And one was that ever since 1932 Mr. Eisele had also been the voting trustee of all the stock of UFA Films of New York, sole distributor for UFA Films of Berlin.

A German company, owning the largest theatre in Berlin and operating the largest motion-picture producing organization in Germany, UFA Films had had a chain of 14 theatres in the United States, and imported films from Germany. Screened and approved by the New York Board of Censors before being released, the films were shown by the company in its own theatres and efforts were also made to sell them to American motion-picture exhibitors.

Since 1932 these pictures, now full of Nazi propaganda, had not been popular in America even among its citizens of German descent and affiliation. Reaction to "Victory in the West" in three of America's largest German-populated cities had been typical. In Rochester, New York, the theatre showing the film had been forced to call in the police to quiet public riots. In an 86th Street theatre in New York's Yorkville the picture had been picketed by indignant German-Americans and the police had been called in to prevent disorder. In Milwaukee the Nazi uniform on the screen had produced violent anti-Nazi reactions among the city's German-born.

UFA Films, of course, was openly registered with the State Department as an official agent for the German Government. The New York distributors had simply distributed whatever German films were sent them.

But Ernest Eisele had not held a purely honorary position with UFA. When Berlin had selected him to hold the trusteeship in 1932 he had been powerful enough to reorganize immediately UFA's management. He had fired all its officers and directors, and installed new ones who were in line with

Germany's new world policy. Once this had been attended to, Mr. Eisele had again stepped modestly into the background. A Mr. Nitze was now President of UFA. But the fact was clear that since the year 1932 Ernest Eisele had held American control of two concerns for Berlin. Obviously, where Germany was concerned, Ernest Eisele was an important and trusted person.

So important and trusted that the question at once arose: Did not the holding by Ernest Eisele of control in America over two German-linked companies of such different character and purpose suggest that joint control of both was also held by some one organization or individual in Germany?

If so, by what or whom?

Certainly there was but one common interest which might bind together B. Westermann and UFA Films under a common trustee. Both might very easily become secret instruments for German propaganda. And UFA Films had been frankly such an instrument from the beginning.

Digesting this idea, agents of Foreign Funds Control read Mr. Eisele's personal story with something approaching avidity. . . .

"I consider this business as my own," stated Mr. Eisele at the outset. "With the cooperation of my directors I have always been allowed to manage it in my own way."

In the early part of 1926, his story went on, while still employed at Brentano's he had received a visit from a former friend in Germany, a Mr. Ludwig Klitsch, head of the great Scherl Publishing Company in Berlin. On one of his voyages to America, Mr. Klitsch had been informed by a shipboard acquaintance of the fact that B. Westermann Company was in an unfortunate financial plight. Mr. Klitsch had accordingly sought out his old friend, Mr. Eisele, and had proposed that Eisele assume management of the famous bookstore with backing from Scherl in Germany.

Eventually it had turned out that way. The Scherl Publishing Company, whose largest stockholder was Herr Alfred Hugenberg, one of Germany's great industrialists, had formed a new company to take over B. Westermann, thus saving for the German publishing world one of its most important outlets in the United States—one which had existed for over seven decades.

Trouble had soon arisen, Mr. Eisele's story went on, over ultra-expensive leases and over-optimistic estimates of business profits. The cultural and intellectual center originally planned had not been realized. But hope had not died in the German backers. The Scherl officers had appreciated Ernest Eisele's struggles to make Westermann pay, and from time to time had arranged to waive payment for merchandise supplied it from various publishing houses in Germany. This had accounted for the ability of B. Westermann to keep going.

In Mr. Eisele's opinion, business conduct of this sort was not unusual. For a concern the size of Scherl, whose publishing business was of great magnitude, the losses suffered by B. Westermann were of little financial consequence; particularly in view of Mr. Klitsch's personal enthusiasm for continuing such an important outlet for German books and periodicals, so valuable to America and her institutions of learning and science.

Where the future was concerned, Mr. Eisele's statement explained, conditions in Germany had, of course, had repercussions on the ability of the store to make a profit. But obligations all around were such that Mr. Eisele had felt morally bound to continue the business for himself, his directors and his employees. Naturally, he ended by saying, such a continuance would require a broader license—one permitting Westermann to recommence its business with Great Britain, South America, Portugal and Spain.

Incidentally, the position of *Cautio Treuhander* as an in-

vestor in the company was thoroughly understandable. According to Mr. Eisele's best information, *Cautio Treuhand* was merely a holding company handling the interests of various German publishers. In 1934 the Scherl Publishing Company had assigned to *Cautio* all its claims against B. Westermann, and afterwards *Cautio* had simply followed in Scherl's footsteps. The assignment had been mostly a technicality so far as it affected his company. There had been no change, really, which had necessitated his asking any questions in Germany. Practically speaking, just one thing of any importance had happened. In the formal German business records in Berlin, *Cautio* had entered Westermann's branch bookstore in Berlin as the branch of an American company through which thereafter all purchases of German books, and all sales of American books, would be handled for all of Germany.

This had taken place in 1934. There was nothing further worth telling.

So stated Ernest Eisele, under oath, in frankly worded statements which bore all the earmarks of complete truth. Under other circumstances, indeed, it is doubtful whether any further investigation would have been made. Unfortunately for the bookman, however, Foreign Funds Control at the moment already possessed certain additional information which cast a very different light on the pleasant picture which Mr. Eisele had presented.

These facts were particularly compelling where they concerned the Scherl Publishing Company and stockholder Hugenberg. They stated that, in Germany, in 1936, a new Military Intelligence Service had been installed by the Nazis. Its function was to collect all news reports from abroad, including all important newspapers, magazines, trade journals and books.

This material was not sent directly to Berlin headquarters. Instead, it was transmitted by secret Nazi agents abroad to

mail drops in Spain or Portugal or via ordinary bookdealers in Germany. The head of this new service was a Colonel Walther Nicolai, whose offices were conveniently located in the Scherl Publishing House. But Alfred Hugenberg himself, a supporter of Hitler from the beginning and formerly chairman of the great armament concern of Krupp, had been owner of Scherl. Hugenberg had made all arrangements for the creation of the new Intelligence Service.

So much for the facts regarding Scherl Publishing and Herr Hugenberg.

The low-down on *Cautio Treuhand*, owner of 30 percent of the stock of B. Westermann, was even more definitely disturbing. *Cautio*, Foreign Funds Control happened to know, was in reality a corporation organized by the Nazi Government itself for the holding of all the stock of every German publisher. As such it was simply the foreign propaganda agency for Goebbels' Propaganda Ministry, supreme over all forms of Nazi propaganda. A certain Max Winkler was its directing head.

Not even all Party men knew just who this Herr Winkler was. He had once been a small-fry mayor of some obscure German town. But he had gone to Berlin in 1925 and entered the Foreign Office. Publicly dismissed when Hitler came into power, privately he had continued to work for the Nazis in an apartment on the Altenaerstrasse, occasionally going for orders or advice to the bachelor quarters of Herr Goebbels on Berlin's West Side.

In Germany itself, Winkler's activities were broadly termed "propaganda." But, as Goebbels was reported to have laughingly said, it was "hard to tell where propaganda ended and bribery began." Winkler's primary task had been to finance and keep going foreign newspapers. At first he had concentrated on German-language papers in non-German speaking countries. By 1937 he had had under control for Goebbels and the Propaganda Ministry some 330 such

German newspapers in foreign countries. And, although few persons aside from Goebbels and Hitler himself had exact information on Winkler's results, it was known now that this figure did not include a large number of newspapers published in Switzerland, Alsace and Czechoslovakia. Apparently Winkler was investing Nazi money astutely in many places.

Considering all these facts, it was possible that Ernest Eisele might well be without personal knowledge of the character and activities of *Cautio Treuhand* and Max Winkler, surrounded as they were with such mystery even in the Fatherland. But that in 1934 August Scherl had turned over its control of B. Westermann to *Cautio Treuhand*; that in 1936 *Cautio* had come forward with an additional \$64,000 for B. Westermann's needs; that since that time *Cautio* had financed B. Westermann completely: these facts seemed to Foreign Funds Control to deserve something more than the casual brush-off Ernest Eisele had given them.

Also, if one wished to look beneath the surface, Ernest Eisele's simple phrase "conditions in Germany" covered a number of disasters highly significant in such a situation. The year 1934 had seen the destruction of many of Germany's finest magazine, newspaper and book publishing houses. Scores of Germany's leading authors and thinkers had been imprisoned or exiled. The burning of books had flared in many German cities. All free liberal thought in Germany had been obliterated or forced underground. A flood of Nazi propaganda had swept German literature away.

Viewed in this light it seemed more than possible that, despite Ernest Eisele's statements, the character of B. Westermann's book business had begun to change as early as 1932; that, beginning in 1934, compensation for a different kind of business activity had been paid to Ernest Eisele and his three directors; and that in 1936 B. Westermann had become an outright property of the German Government, cast

in the role of secret-information agent for the Nazis as one part of the Four Year Plan for a new Germany.

Stated the head of Foreign Funds Control formally to B. Westermann Co., Inc.:

"Action on application reserved."

At the same time, to the Investigative Unit of the Division, went a far different message:

Investigate every employee of B. Westermann; especially its officers and directors, Ernest Eisele, Friederich Fasse, Hermann Schroeder and Albert Reissig. In the Treasury's judgment, all four are agents for the German Government.

Three weeks before Pearl Harbor, B. Westermann Company and its four officers had become suspect. . . .

ON FEBRUARY 18, 1942, in an office in the Chanin Building in New York City, two men from the Investigative Unit of Foreign Funds Control again faced President Ernest Eisele.

For two months B. Westermann had been left in complete ignorance as to its exact position with the Treasury. Even now no hint of any suspicious findings or damning discoveries appeared on the composed faces of the Treasury men. Nevertheless, since that last word from Washington, many things had been happening to B. Westermann.

At noon on December 11, 1941, forty-eight hours after America's declaration of war, Treasury agents and guards had taken over the 48th Street bookstore.

Treasury representatives shall prevent any access by any person to the premises, and shall particularly prevent access to, alteration, destruction or removal of, files, records or other property. No person shall be permitted to leave said premises unless said representative gives his consent.

Those had been their instructions. At the same time wires from Washington had gone to each of the New York banks where the four directors kept their personal accounts:

Block the accounts of Ernest Eisele, Friederich Fasse, Hermann Schroeder and Albert Reissig.

From the beginning, where B. Westermann was concerned, the job of Foreign Funds Control had been to find enough evidence to verify its growing suspicions. Either B. Westermann was deep in guilt, the Treasury knew, or there was some almost unbelievable explanation for its close relations with Nazi Germany. By this time, however, inves-

tigation of the company's past activities had been so exhaustive that the Treasury men sitting across the table from Mr. Eisele at this final interview were not only completely convinced of the bookstore's guilt, but they also knew precisely what corroborative evidence was still required to complete the case.

Intensive study of the complicated records of the company had disclosed that between 1934 and 1940 B. Westermann had remitted to Berlin over \$180,000 in cash and \$75,000 in merchandise, a total of \$255,000—an amount far in excess of the actual deficits listed. Moreover, such deficits would not even have existed had it not been for the high prices arbitrarily charged by Berlin for German publications, and the low valuation of the dollar against the mark, also arbitrarily set by Berlin to allow the Reichsbank a substantial foreign exchange profit before settling Westermann's account.

Not only had B. Westermann thus provided a substantial source of foreign exchange for Germany, but it had been used as a distributing center for Nazi propaganda in America and as a purchasing agent of important military information. This Foreign Funds Control had established beyond question.

As to the possible distribution by Westermann of Nazi code books, evidence pointed to the use of a Spanish dictionary and Maeterlinck's *The Life of the Bee*. Of interest, too, were intercepted shipments by B. Westermann to Lisbon and Spanish addresses, addresses which were obviously mere "drops"—mail slots for the convenience of the German High Command. Such shipments had included publications of the United States Air Service, *Aero Digest*, *Aviation*, *Coast Artillery Journal*, *Military Engineer*, the *Quarterly of General Staff School* (Fort Leavenworth, Kansas), *Bell System Technical Journal*, *Journal of the Aeronautical Sciences*, *Radio Craft* and others of similar importance.

Of the bookstore's four directors, all German-born and

educated, at least one—the booming Mr. Fasse—had been active in German politics, to the point of leading riots.

Among its employees, one—the salesman Max Blank—had been an outright Bundist and Nazi and was presently serving a Federal sentence for overt acts against America. Another had been an official Nazi agent, employed formerly at a Fifth Avenue store before transferring to employment at Westermann's following an interim of propaganda study back in Germany. Still another employee was the daughter of the leading pro-Nazi pamphleteer in America. Most of the employees had either recently come from Germany or had made recent trips back to their fatherland for various reasons.

Some had even been hired directly from Germany under highly peculiar circumstances pointing straight to the heart of the mystery which Foreign Funds Control was working to solve: the hidden truth as to the actual control of the book-store. In fact, to the investigators now nearing the end of two days of enlightening interviews with each of Westermann's four directors, all that was missing was confirmation of the Treasury's own solution to the mystery. . . .

And today the questioning by Foreign Funds Control of Ernest Eisele, President of B. Westermann, was proceeding:*

"Now, Mr. Eisele," the chief investigator was saying, "sometime in 1934 the actual control of the policy of your company shifted to *Cautio*, didn't it?"

"Yes and no," replied Mr. Eisele cautiously.

"Explain." The Treasury man looked at the bookman inquiringly.

"The active stock remained in Scherl's name," ventured Mr. Eisele, "but *Cautio* was the—if I have it right—divi-

*Reproduced from stenographic notes taken at the time.

sion which took over the financing which had been done so far by the Scherl people."

"They stood the losses of the company?" asked the investigator.

"Yes."

"How far back has the company been losing money?"

"Since its inception."

The investigator showed interest.

"Now, the *Cautio* undertook to meet all the losses of your company," he asked, "even though they held minority stock?"

"Yes."

"What explanation do you have for that?"

Mr. Eisele spoke with reserve: "*Cautio*, as far as my information goes, is a company which was organized for the benefit of the entire book trade in Germany."

"Who puts up the money for it?"

"I don't know."

"Was it a government organization? You have some idea who your superiors are." The investigator was persistent.

"I have simply to do with the *Cautio*—the two men there, Dr. Winkler and Mr. Imhoff. I have absolutely nothing to do with any government agency at all." Mr. Eisele's voice rose. "I know nothing," he said firmly, "except Dr. Winkler and Mr. Imhoff."

At the mention of the names, a peculiar tension crept for a moment into the room. But neither of the two Treasury men betrayed undue interest.

"When did you first meet Winkler?" The question was asked casually.

"1934. I met him over there. I was introduced to him by Klitsch as his *gesellschafter*." [partner]

"Did he tell you whom Mr. Winkler represented?"

"No."

"Did you know that Winkler was an official of the Propaganda Ministry?"

"No, I did not."

"Did you know Winkler's background?"

"I knew that he was the mayor of a town—*bürgermeister*—that was all."

"He was not a man who had been in the book business?"

"No."

The Treasury man leaned back in his chair.

"Just tell us how you happened to make that trip."

"I was making a trip every year."

"Were you asked to come over specially at that time?"

"I don't recollect."

"You don't happen to recall just how you happened to make that trip—except that you made annual trips to Germany?"

"It would be unwise to make a statement which I cannot recollect," Mr. Eisele returned nervously.

"Would you have correspondence in your files in case you received a letter or cablegram asking you to come over?"

"Most of it is too old."

"Do you destroy old correspondence?"

"Yes, sir."

The investigator picked up a document from the table.

"Do you remember receiving this long letter that I will make *Exhibit A* in the testimony—dated March 27, 1933, Berlin, to the UFA Films, 130 West 46th Street, New York City?"

Ernest Eisele glanced uneasily at the typewritten letter.

"I may have got that letter. Sure—1933—yes, I think I got that."

"That is the statement of the new policy of UFA, isn't it?"

"It must be."

"Please read it aloud."

Ernest Eisele's laugh was self-conscious as he looked

rapidly over the pages. "Amusing under the circumstances, isn't it?" he said.

The Treasury men offered no comment, and Mr. Eisele began to read, slowly translating the German:

Berlin, March 27th, 1933

Gentlemen:

The terrible spiritual change in Germany is influencing the future of UFA decidedly, inasmuch as the UFA Films will be the witnesses and messenger of the new German mentality, German thought, spiritual life, as following the traditions which have been so well received by the German-Americans, and therefore they will have very important interests for your public. . . .

For the space of five minutes, the voice of the Nazi Propaganda Ministry spoke in an American office in the Chanin Building as Ernest Eisele read the long letter: direct instructions with advice on policy from Berlin to UFA Films in America.

Mr. Eisele read out the signatures of the Berlin directors of UFA: "Wilhelm Meydam . . . Fritz Thorhauer" and settled back impassively.

"Now, Mr. Eisele," the voice of the Treasury investigator was cold, "there was a change in the spirit of the German film industry following this letter, wasn't there, as far as you were concerned?"

"I do not know what happened in the German film industry. I am a bookman. Unless you want my opinion as a plain citizen. . . ."

"Well, you have a much better reason to have an opinion. You are a director of UFA Films, and you are the man that the original German owners counted on to see that things went well in this country with their business."

"Commercially, yes," admitted Mr. Eisele carefully.

"Was there any question in your mind that as time went

on the control of the Goebbels Ministry grew stronger and stronger, more and more obvious?"

"That I do not know."

"I believe there were several documents which you recall receiving, in which the new line was pointed out to you? Now, can you tell us what instructions, or other outline of principles, you received concerning the operations of B. Westermann & Co. following the advent of the Nazis to power?"

"Absolutely none whatever." Ernest Eisele was emphatic.

"They never wrote you?"

"No."

"Did anybody come to talk to you about it?"

"No, sir."

"You are quite sure about that?"

"Yes, sir."

The Treasury investigator looked sharply at Ernest Eisele.

"Do you know a man called Halfeld?" he asked.

"He is the correspondent for the Scherl papers."

"Did you have instructions from Germany to pay him money here in the United States?"

"Sometimes, yes." The answer came grudgingly.

"Just tell us the story."

Mr. Eisele hesitated a moment. Then: "Why, he being a part of the Scherl concern, he received money from us—money which we were owing to Scherl. Instead of Scherl having to transmit francs from abroad for salaries and expenses for him, we gave him money."

"Halfeld is now interned, isn't he?"

"He is in White Sulphur Springs as far as I know."

The interrogator shifted the files on his desk. "Tell me about the organization of the bookstore in Berlin."

"When Scherl got out of the picture, the financing—because up to that time everything was bought in the name of *Scherl Abteilung B. Westermann*—when *Cautio* came into

the picture it was decided that things would be bought in the name of *B. Westermann g.m.b.h.*, and the German company organized under the laws of Germany."

"Who decided that?"

"Mr. Winkler and myself and Mr. Imhoff."

"And where did you get a manager for the store?"

"Mr. Sirk who had been manager in the employ of Scherl for all the time while we were together with Scherl."

The Treasury man nodded and went on. "Now," he suggested, "let's get into the problem of your visits to Germany. When you arrived in Germany in 1933, the Hitler party had come into power?"

"I don't recollect, but I presume so because it came into power in 1933, in January."

"Do you recall whether you received any instructions on the occasion of that visit of yours to Berlin in 1933 concerning the conduct of UFA or B. Westermann?"

"No, sir."

"Whom did you see?"

"Mr. Klitsch."

"Did you meet anybody also connected with the Nazi Party, or organization? Any of the government officers?"

"No."

The investigator studied Mr. Eisele for a moment.

"Now, you went again in 1934, didn't you?" he went on. "Whom did you meet?"

"Mr. Klitsch and Dr. Winkler."

"That was the first time you met Winkler?"

"Yes, sir. I was introduced to Dr. Winkler by Mr. Klitsch as a new associate who would in the future look after the financing of the Westermann company since Scherl cannot carry it alone."

"What explanation was made concerning Winkler's interests?"

"Winkler was supposed to be the man who was financing all the publications and bookselling."

"Winkler was only a small-town mayor." The investigator looked at Mr. Eisele inquiringly.

But the bookman merely added: "It was his title, at any rate."

"Did anybody explain to you where he was going to get his money to do the financing?"

"No, no."

"Do you have any suspicions concerning his connections with the Goebbels Ministry?"

"You mean suspicions? I don't think they mean anything." Ernest Eisele was obviously fencing. But the interrogator was not to be put off.

"I can't ask you whether you have any *knowledge*," he said sharply. "You always say you don't. Do you have suspicions?"

"I presume I don't want to answer this question if it is within my province."

"The only right you have to refuse to answer is where the answer would incriminate you under the Federal law."

"All right—a suspicion, yes," admitted Ernest Eisele.

"What was that based on?"

"General ideas."

"To wit?"

"After all, the Nazis killed quite a good deal of book business, publishing houses, threw them out—and they must have somebody who was taking care of those things there."

"You assumed that Winkler had been appointed to do that job?"

"Yes, sir."

"Did you talk that over with Klitsch?"

"No."

"You had a lot of friends in Germany in the book-publishing business, didn't you?"

"Yes."

"Didn't you talk with them?"

"I did not."

"Did you meet Imhoff on that occasion?"

"Yes, sir."

"What was he introduced to you as?"

"Simply the gentleman in charge of the department of B. Westermann."

"As a man who had been put in charge by Winkler?"

"I presume so."

"Was he dressed in uniform?"

"No."

"Was Winkler in uniform?"

"No—just plain business people."

At these words, the Treasury man paused reflectively before he went on: "Then you went again in 1935?"

"I do not know."

"It was your custom to go every year?"

"It was my custom to go every year. I will have to look up in my passports and my books. I know I was there in 1936—that I know. That was the year of the Olympic Games."

"On that occasion you visited the office again?"

"Yes, sir."

"What did you find concerning the developments in government control?"

"Nothing at all. We had our office—I chiefly worked with Mr. Sirk, and went over the details of the office—and went to see Dr. Winkler and just gave him the annual report which had been made by our company. We discussed things—how things were going on here."

"Did Winkler give you points on how to run your business?"

Ernest Eisele shook his head emphatically. "Absolutely not," he said. "Positively not."

"He received your report and that was all?" pressed the investigator.

"That was all," repeated Ernest Eisele flatly.

"Did he express the interest of a benefactor in the operations of your firm—how you should operate it?" the Treasury man inquired.

"He naturally expected that the thing would go better," said Mr. Eisele stiffly, "so he wouldn't have to spend so much money on it. On the other hand, he was satisfied with the conduct of the business under my direction."

"Did he discuss with you the problem of furthering particular types of literature that you were getting?"

"He did not."

"So far as he was concerned, was it sufficient for his purposes that you sold French and Swiss literature rather than German literature?"

"He had no objections at all."

The Treasury man glanced at Mr. Eisele curiously. Then he continued: "Now in 1937 you went again, didn't you?"

"Yes."

"Did you have any difficulties?"

"No."

"Did you get any criticism from Winkler or Imhoff or anybody else?"

"No—well, 1937, I think, was the year because I got a bonus of \$30,000 for setting up the lease."

"Will you explain?"

"We had premises right next door to the premises now occupied by the Irving Trust Company. They were anxious to have our store and our lease at a profit of about \$30,000. So we. . ."

"You entered into another lease, didn't you?"

"Our present lease."

Again the interrogator shifted his papers. "Now, you went again in 1938, didn't you, Mr. Eisele?"

"Yes, sir. I was a few days in Berlin when the Munich affair started, and I beat it out of Germany."

"You thought there might be war?"

"Yes, sir."

"Did you have a conversation with Winkler?"

"Half an hour, at the most," Mr. Eisele was carefully exact.

"Did you get instructions from anybody about handling the business in case of war?"

Mr. Eisele shook his head. "Not at all."

"No plans about what to do when communications were cut off?"

"No."

"Did Winkler criticise the management?"

"No—never Mr. Winkler." The answer was quick.

"Well, who did?"

"My people here."

The investigator leaned forward suddenly. "Oh," he said, "you had had criticism prior to 1938 from the people here about the management?"

"My associates—Mr. Reissig and Mr. Fasse—very often criticised my conduct of the business, telling me that I am too soft." Mr. Eisele sighed.

"When did that begin? Did that begin after the advent of the Nazis to power or before?"

"I should say after."

"Is there any reason why Reissig, an employee of yours, should have the right, or the power, to criticise his superior?"

"Why, I don't object to it." The answer was placating. "Criticism is good."

Suddenly the questions changed direction.

"What about Max Blank?" asked the investigator.

"Where did you get him?"

"He came to me from Freiburg," Ernest Eisele explained.

"By a chance remark in Berlin."

"When?"

"In 1938."

"Just tell us what happened," suggested the investigator.

Mr. Eisele sounded a little weary. "Well," he said slowly, "Mr. Imhoff was asking me whether I knew a Mr. Schultz. He made a chance remark whether I knew Lohse. I said 'yes, why do you ask me this?' 'Why, I have seen some report by him written on you.' So I just thought about it and said, 'Well, that is very nice.'"

"Did Mr. Imhoff explain to you how Lohse happened to be writing reports on you?"

"No, he did not."

"I just want to get the substance of Lohse's criticism. Was it that you were not doing enough for the Nazi program in the United States?"

"I have never seen the reports. I have no desire to see them."

"When you came back from Berlin in 1938, did you talk to Lohse?"

"Yes, sir."

"What did you tell him?"

"I told him I had heard he made some reports, and that I am going to have these investigated, and then ask Dr. Winkler or Mr. Imhoff to find out if the accusations are correct."

"You did ask Winkler that?"

"I did ask Winkler that by letter. I didn't know the details in Berlin. It was too late to talk with him. He sent some men over here."

The Treasury investigator swung around in his chair and looked out the window. "Who were they?"

"Mr. Schultz."

"What was his first name?"

"I don't remember. He was of the *Verein*. A bookseller from Italy. He came together with a Mr. Hoevel who had

other things to do." Mr. Eisele became emphatic once more. "He had nothing to do with us."

The investigator swung around again and faced Mr. Eisele. "Another bookseller?" The question was caustic.

"No, he is in the Ministry of Propaganda. He is in charge of exhibitions in foreign countries."

"The two came to check on reports at your request?"

Mr. Eisele spoke vigorously. "Only one," he said. "I asked the other not to come to my place because he was from the Ministry of Propaganda."

The Treasury man nodded. "And then what happened?" he asked.

"And then the report came back from Dr. Winkler that everything was just all right, and that I should simply try to get some more help to assist me."

"Do you have that letter still?" inquired the investigator.

"No, I haven't got it."

"What did you do with it?"

"I tore it up."

The Treasury man looked incredulous. "That is your clearance certificate—and you destroyed it?"

"Absolutely, because I was so asinine. I was absolutely vindicated in my work."

"When did you destroy it?"

"Right after I got it."

There was a short silence. Then the investigator continued: "Let's get into the question of Mr. Fasse," he said. "Mr. Fasse is sort of related to you by marriage, isn't he?"

Mr. Eisele's expression was cynical. "Yes," he said shortly.

"Now, how did you first pick him up?"

"He worked for me in the branch organization of Foreign Publications."

"And then married your niece?"

"He married my niece."

"He made quite a good deal of money speculating in inflation in Germany?"

"I don't know anything at all about that."

"Didn't you know that was his biggest achievement in Germany? That he got relatively rich in the inflation?"

"I have no knowledge of that."

"You have heard him boast about it?"

"He is boasting of a lot." Clearly Mr. Eisele was not overfond of Mr. Fasse.

"Now, Fasse went to Europe in 1940? Tell us about that trip."

"Well, he was working for us. He got a leave of absence so he could see whether he could pick up something else for us. But his fare was paid by the Leitz Company."

"And did he undertake to bring back books for Westermann?"

"If he could get them."

"And films for UFA?"

"Yes."

"His passport on that occasion did not authorize him to go to Germany?"

"As far as I know, it did not."

"But he did go to Germany?" the investigator's question was almost a statement.

"He boasted about getting into Germany."

"Did he have any arrangement that he would go to Germany?"

"Not from us." Ernest Eisele's denial was unequivocal.

"How does a man do that?" inquired the Treasury man. "Go to Europe, bring back film, running around giving advice to people, telling people in UFA how to operate, with no arrangement for employment or compensation?" He paused. "I get the impression that he is working for another boss. That he is a sort of overseer for somebody else."

"All right—but..." Mr. Eisele paused.

"He intended to go to Germany when he left the United States on a passport that didn't allow him to go. He got in there, and he brought in a couple of documents from there." The interrogator leaned forward abruptly. "He brought a letter."

For the first time Ernest Eisele's eyes showed the glint of anger. "I have not authorized him to go to Germany," he said. "Absolutely not—under no circumstances."

"You know you had heard him say he was going to Germany before he left here."

"He is boasting, you know. It doesn't mean anything at all."

"But he did boast he was going to Germany?"

"Boasting doesn't mean anything."

"Mr. Eisele, when a man says he is going to Germany, and you know his passport does not permit him to go to Germany, it is not just boasting."

"Well, then—" bitterly, "he can break his neck. That is all."

The investigator leaned back. "He seems to have a very special arrangement with Schroeder and Reissig, the other men, about how your bookstore should be run."

"All right—" The shrug of Ernest Eisele's shoulders was expressive.

"Did you know he was going to Germany to arrange for the supervision of your business?"

"No, I don't know that. I certainly would have prevented it."

"When he came back he brought a letter. Tell us what the letter said."

Mr. Eisele considered the question a moment. Then:

"It was a letter from Dr. Winkler," he stated, "that I should divide my responsibilities with my associates: Fasse,

Mr. Schroeder and Mr. Reissig, and it also asked Mr. Nitze to sit in and arrange for any difficulties which might arise in the conduct of the four people together."

He studied the faces of the Treasury men.

"Winkler had expressed no dissatisfaction with your business," asked the investigator, "when you saw him in 1938?"

"No."

"And here comes Fasse setting up a cell, or *Anschluss*, in running your business for you?"

Mr. Eisele was quick with the correction: "To *assist* me. The last time I met Dr. Winkler and Mr. Imhoff in 1938 he told me: 'Now, Mr. Eisele, you are getting advanced in years. We would like you to look around for somebody to take on part of your responsibilities.'"

"As far as I know, you are only 64 or 65 years old. That isn't old."

"Sometimes after fifty years at the trade, and if you have had fourteen years as I have had them, it counts up."

"Winkler did not say, however, that you were going to have three clerks made your—given veto power over your management?"

"No."

"This was quite a shock to you, wasn't it?"

"Somewhat."

"Did you talk to Schroeder about it?"

"Yes."

"Did he tell you that he had any advance information?"

"No."

"Do you know that Schroeder had had discussions in 1935 with Scherl about the operation of your business?"

"Yes, I presume so. He went to Germany."

"Did you assume that Schroeder was also reporting on you to Germany?"

"I don't think all these reports meant very much," Mr.

Eisele broke out petulantly. "And I am still here. I can look everybody in the face."

"Well, you are still here possibly because the Treasury Department has control of your business."

"That is perfectly all right—I am still here."

The Treasury man looked back at his notes. "Did Fasse boast or tell you what arrangements he had made in Berlin other than the setting up of this council to supersede you?"

"No, no. He had seen Mr. Klitsch. I never paid any attention to his boasting."

"What did you do with the letter Fasse brought back?" inquired the investigator.

"I destroyed it."

Destroyed it. The room seemed to echo Ernest Eisele's bland reply. The Treasury investigator said nothing in return. Obviously there was nothing more to be gained here. Everything was to be denied. All evidence was to be described as destroyed. Yet the case was clear as daylight. B. Westermann had been run directly from Berlin by its Nazi directors. It had been one more of Max Winkler's foreign efforts.

"Very well," the investigator said finally to Mr. Eisele, "you may go."

Not until the door had closed behind the bookman did the chief investigator take up from the desk a long typewritten document which had lain undisturbed throughout all of the Westermann interviews. A document which explained once and for all the mystery of the failing bookstore.

His expression, then, was ironical as he read the document through once more:

MINUTES of B. Westermann Company meeting, July 16th, 1940, 5 p.m. with the following gentlemen present: Nitze, Eisele, Reissig, Schroeder and Fasse.

EISELE SPEAKING:

Francis B. Sayre and a group of Treasury men had made a dramatic getaway from Corregidor with all they could bring. More had been listed and destroyed. But much still remained in Manila as well as in the Island banks.

Meanwhile, into the offices of Foreign Funds Control daily poured other serious reports from abroad. From Switzerland came advices of huge sums in American dollars available to the Nazis for war materials from Spain, Sweden and Portugal. From the Balkans came stories of equally huge sums of counterfeit bills issued by Berlin. And from South America secret memoranda showed a steady influx of such currency for Axis propaganda and espionage.

But how segregate looted cash from honest? How touch such a problem at all without destroying all foreign faith in America's credit at a moment when foreign friendship and trade were vital?

In a place like Hawaii, of course, all American dollar bills could be called in, declared valueless after a set day, and new bills issued in exchange, stamped "HAWAII" in large letters. Invasion could thus be anticipated. But such tiny steps could not win a world-wide currency war—and meanwhile time did not wait.

On March 13, 1942, therefore, Foreign Funds Control took the bull by the horns. Thereafter, it announced, no American currency coming from any blocked country would be honored in the United States until it had first been deposited in a Federal Reserve Bank and evidence presented of its honest origin. Whether imported into America by mail, by hand or otherwise, all cash was to be so seized and held for identification. This was the notice given by Foreign Funds Control to all alike: foreign banks, governments, brokers, importers—and smugglers. What few bona fide incoming visitors there still were might retain \$250 undeclared at the Customs. That was all. All sums above that must be treated as Axis-tainted until proven otherwise.

This was the Treasury's first step in the war against "black dollars."

On May 19, 1942 the second step put to the test the friendship of our South American neighbors. Included in the Treasury order on that date was currency entering the United States from any country in the world. Also, the amount to be released at Customs was further reduced to \$50. No nation in the world was excepted—not even a South American ally.

The battle was really on.

Almost at once, like a thousand moles hitherto working underground, giving away their activities only by suddenly humped-up ground, the holders of looted cash, Axis agents or their stooges, began to show up in the open—New York, the West Indies, Chile, Panama, the Argentine.

Herbert Karl Friederich Bahr, American citizen and Nazi spy, was the first man to be caught in the new net. Sent to Germany in 1941 as an American exchange student in engineering, Bahr had been early won over by Nazi eloquence. In May 1942, richer by a doctor's degree in engineering and a thorough training in espionage, he was given \$7,000 by the Gestapo and sent through Switzerland to Lisbon to get a quick passage to New York. The disturbing news that Foreign Funds Control had placed a limit of \$50 per traveler on undeclared American currency entering the United States stopped him short in the Portuguese capital. Hurriedly cancelling a hard-won passage, he sought advice through mail drops from the Gestapo. But the Gestapo replied that there was no known way to circumvent this new regulation; to act as ingeniously as he could. Bahr, frightened at the prospect, tried to stay as long as he could in Lisbon, and spent as much of the \$7,000 as possible, gambling in the Lisbon Casino, buying clothes and making dozens of extravagant purchases. Notified by the American Consul, however, that another ship was now available, at last he

dared stay no longer and finally left with 1,500 extra dollars concealed under a cigar-box label.

Forewarned by dispatches from Lisbon of Bahr's erratic behavior, upon his arrival in New York Foreign Funds Control men detained him for questioning on the dock. When not only the \$1,500 but also supplies of invisible ink and mimeographed espionage instructions were found, he was turned over to the FBI as an enemy of his country. Later that year he was sentenced to thirty years in Federal prison. Foreign Funds' new regulation had defeated him.

Where the real fight against black dollars was concerned, however, such a catch was only a promise of bigger ones to come.

On June 10th a Spanish ship in ballast from Málaga touched at Puerta Plata on the north coast of the West Indian island of Santo Domingo—and the first really fat mole came above ground.

Aboard the *Iciar*, in the wallet of the captain—who had been hired especially for this particular voyage—was \$300,000 in Axis-looted American money. Unexpectedly in mid-ocean, a radio message from the captain's employer, the Moroccan Tobacco Monopoly, had warned him that the new Foreign Funds' order put his looted cargo on the spot anywhere in the Western Hemisphere. So the captain's plans to use the money openly for the purchase of tobacco in Cuba and Santo Domingo had had to be changed. Eighty thousand dollars could still be dispatched by air to Cuba as arranged, the anxious employer had radioed, but the remaining \$220,000 was "hot." It would have to be placed in safekeeping until new arrangements could be thought out.

Setting foot on shore in Santo Domingo, the captain obediently gave a waiting Cuban agent his expected \$80,000, and then hotfooted it to a British bank in Ciudad Trujillo, the capital, to deposit the balance. To his mind, this was the smartest thing he could do to protect his owner's property.

In reality, however, it was not at all the most brilliant move he might have made. Unknown to him, his boss's radio message in mid-ocean had been intercepted by the British. Immediately informed of its contents and also, a short time later, of the bank deposit along with the serial numbers of the bills, the Treasury had promptly broadcast the numbers as outlawed in the United States.

Also apprised of the incident, the British Navy had at once announced that such a shipment of illegal currency had violated the ship's navicert. A week later, under American and British pressure, both the Dominican and Cuban Governments decreed the entire \$300,000 seized. The Moroccan Tobacco Monopoly was out of luck—and the overzealous sea captain, one José Alberti Palmer, probably out of favor.

The currency regulations of Foreign Funds Control had trapped a really big mole—of whom more later.

Nevertheless, even this first fortunate outcome for the Division in its embargo on looted money was largely a happy accident. In the long run, loot-smuggling sea captains cannot be counted on invariably to deposit their black dollars in respectable British banks. Nor do British navicerts and censorship controls operate over the Andes or the Pyrenees, or over Argentinian banks and cloaked German concerns in Chile.

What the episode made desperately clear was that the Axis had already started to dispose of its looted dollars at a discount to a thousand "fences" in the Western Hemisphere. These, in turn, would naturally proceed to engage in smuggling activities or *sub rosa* business deals to make these dollars good. Black, bloodstained dollars, Foreign Funds Control might term such cash, and name its possessors enemies of the United States; but the whole North American coast and the Mexican border were open to smuggling and there was a fertile field for dark business deals throughout the West Indies, South America and Pan-

ama. Panama City, in particular, was a made-to-order outlet. In that city American dollars were the ordinary currency of the country, in its shops, banks, Canal Zone activities and along the docks.

Foreign Funds Control thus soon found itself forced to enter a new battlefield, on which the economic fight was to become even more bitter. Nor was the immediacy of it left long in doubt.

Scarcely had the case of the Spanish ship been settled when into every American harbor and airport swarmed new black-dollar smugglers, persons of every description: travelers, seamen, visitors, stewards, merchants, all loaded with looted cash. In New York, New Orleans, Miami, San Francisco, suspect after suspect was caught and proved guilty. From bank after bank in the United States, required by Foreign Funds to watch out for unusual transactions, came hurried messages, clues leading to the uncovering of dozens of attempts to spend illegal money secretly smuggled in.

Like a double battleline the Customs Agents and the banks stood, cooperating in every detail with Foreign Funds Control. Practically no black dollars could get past both lines into America. But this very alertness and efficiency made that much stiffer the Division's currency battle abroad. For, blocked in its efforts to use its stolen wealth legally, the Axis was soon selling American currency to "fences" at ninety, eighty, seventy, sixty, even at fifty cents on the dollar. And around the world, as a consequence, sprang up one of the most fantastic black markets ever seen.

In Spain, American owners of valuable industrial plants were suddenly harassed and work sabotaged with official connivance until they offered to sell out at low prices. Whereupon purchase with disguised black dollars was attempted through the agency of Swiss banks willing to lend their neutral services to anybody.

In one pro-Axis country a cool million in looted cash, at

the disposal of the State Bank itself, was suddenly available for the purchase of a tanker much needed by Germany abroad. When the owner of the tanker refused to sell it for outlaw cash banned by the U. S. Treasury, the transaction was forced through under threat of prison to the unfortunate owner, leaving him in the end deprived of his ship and holding only illegal black dollars to show for the transaction.

Meanwhile, Jap and German submarines were unloading black dollars on the Peruvian coast, for which the Germans took back industrial diamonds from the mountains and the Japs bought espionage and propaganda. In the Argentine and Brazil, Portuguese and Spanish ships delivered black dollars in exchange for neutral cargoes. In Panama, black dollars began to arrive, smuggled through in false-bottomed suitcases and other devious ways by airline from Lima or by West Coast boat from Santiago.

Everywhere south of the Rio Grande small fortunes might be made by men to whom the victory of the Allied cause meant nothing. It was as if a poisonous rain had descended upon Good Neighbor lands and the resultant weeds were strange and noxious. Even up into the political and social strata the black-dollar fever spread, contaminating high officials and reputable brokerage houses.

Against such an assault the Treasury possessed the only real weapon usable in Latin-American countries on such a front: its control through New York banks over all payments by South American banks and brokerage houses in one country to similar houses in another.

Academic though this may sound, as an economic weapon it was factual and unbeatable. Because of the stability of the American dollar, payments by Chilean or Peruvian banks to each other or from Brazil to Argentina and vice versa—such payments did not flow up and down the South American coasts or across the Andes with its still unrepaired moun-

tain railway. Instead, by mail or cable, they went up to New York banks and back to South America again: from Buenos Aires to New York to Santiago; from Lima to New York to Rio de Janeiro. New York was like the central switchboard of a currency telephone exchange.

South American businessmen who wished to do foreign business could go, of course, to their local banks. But these banks themselves were subscribers to a service whose switchboard in Wall Street was under Treasury control. At any moment the Foreign Funds Control Division of the Treasury could blacklist any subscriber, deny him the use of his American banking facilities, and "freeze" any funds that he might have on deposit in the United States. For a bank to be blacklisted by Foreign Funds Control meant to lose all ability to do any substantial foreign banking business. No big bank or brokerage house, therefore, could afford to antagonize the United States Treasury.

To put this matchless weapon into action against black dollars, the Treasury needed to take only two steps:

One was to put an additional watch in New York over every South American transaction that went through the United States.

The other was to request every country below the Rio Grande, with the exception of Panama, to call in all the legitimate American currency already held by its citizens and to consider all other American cash valueless until ownership was proved legitimate.

Only one exception beyond Panama could be permitted: the circulation of two-dollar bills and coin money in Mexico. This was because large amounts of American currency were in use in Mexico; and the issuance of the two-dollar bill had been so long discontinued by the Treasury that the Axis held practically no bills of that denomination.

Otherwise, in May 1942, all free American dollars were declared outlaw south of the United States. Stated Foreign

Funds Control: "No American dollars received at a teller's window in any Latin-American bank will be honored by correspondent American banks unless accompanied by a satisfactory explanation of their origin."

Cash or accept black dollars at your own risk, implied the Treasury. All American embassies, consulates and missions will report offenders. All New York payments will be investigated. Anyone who deals with an Axis agent in looted currency will be blacklisted.

This was the opening gun of the Treasury, repelling the Axis' black-dollar assault upon the Western Hemisphere. Foreign Funds Control had widened its front in the silent economic war.

AS IF TO emphasize the difficulties inherent in any such move, there occurred almost at once one of the most unfortunate incidents of the whole campaign. This was the regrettable case of Don Oscar Schnake of Santiago, Chilean Ambassador to Mexico, former candidate for the Presidency of Chile.

To most Chileans this was a real *cause célèbre*, for Ambassador Schnake was a declared friend of the Allies, not of the Axis. Furthermore, the party he represented had ridden to power as a champion of breaking relations with Germany.

To the Treasury, nevertheless, there was a value in the case which far outweighed any discomfort caused to those involved. For it proved to all of South America that the Government of the United States meant business and would act without fear or favor.

The affair itself came to light most simply. . . .

On December 30, 1942 a certain Chilean newspaperman, living at the St. Moritz Hotel in New York City, made a deposit of \$32,200 in an uptown branch of a New York bank. The money was in American currency wrapped in an old newspaper. He was depositing the money, the reporter explained, at the request of a friend of his, Dr. Oscar Schnake. The money was to be credited by the bank to the account of one of its most valued South American customers, a brokerage house located in Santiago, Chile.

As soon as the Chilean newspaperman was out of sight the bank did two things:

First, it reported this unusual deposit to Foreign Funds Control, and blocked the funds pending an answer,

Second, it cabled its customer in Santiago for a full explanation.

The result was most mystifying.

The Chilean brokerage house cabled in reply that the \$32,200 "corresponded in amount to a purchase they had agreed to make" from a certain Juan Karlezi of Santiago. The currency to be purchased was to be deposited in the New York account of the Chilean brokerage house; payment to Karlezi was to be made in Chile. Señor Karlezi, stated the brokers, had assured them that the thirty thousand-odd dollars concerned had been held for him in New York by a certain party for a long time. In fact, he had left it there on the occasion of his last visit in 1941. He was now merely taking advantage of the presence in that city of Ambassador Schnake to ask him to deposit the money for him in the broker's New York bank account.

When Foreign Funds Control read this cable, it sent out its agents at once.

First came an interview with the "certain party" mentioned—a member of a prominent Chilean family resident in New York. To the queries of the Treasury agent, this gentleman stated unequivocally that he did not have the honor of Señor Karlezi's acquaintance; that he had never held any funds for anyone, and that he had never heard of such a sum as \$32,200 until Ambassador Schnake, who *was* a friend of his, had paid him a social visit. At that time, he stated, the Ambassador had requested him to help in creating the impression that these funds had been in the United States for some time. But he had been obliged to refuse his cooperation in the matter—naturally.

At this point in the investigation, a certain startling possibility occurred to Foreign Funds Control—one which, if true, might shake the diplomatic world.

But Dr. Schnake, himself promptly questioned, proved politely reassuring.

He could only permit himself to say, he stated cautiously, that he knew of the matter, and that there was nothing to worry about in connection with it. The funds in question had formerly been held in "private and safe" hands. The individual who had delivered the cash to him was no longer in this country. But if Foreign Funds was seriously curious about the money he had no objection to revealing the fact that it was ultimately intended for the purchase of machinery—to dehydrate potatoes in Chile.

To the investigators, of course, this was a courteous but most meaningless explanation. The U. S. Treasury was interested, not in the final destination of the cash, but in its origin and the manner of its importation.

Nevertheless, one thing was clear.

Whoever might have planned to exchange illegally imported American currency for Chilean pesos at a hundred cents on the dollar had planned it under the auspices of the Chilean brokerage house.

Ambassador Schnake could claim diplomatic immunity. But, since the brokerage house had produced the mystery, what was the firm's record? And who was its customer, Juan Karlezi, to whom a Chilean ambassador was willing to grant such a remarkable favor?

The answers, found in Santiago, made the mystery even more compelling.

Señor Juan Karlezi, it seemed, was business manager for a number of prominent Chilean politicians. He had acted as treasurer for Dr. Schnake himself during his recent campaign. He was also Managing Director of the Laura Mining Company, the stockholders of which were highly influential individuals, including for one a prominent lawyer formerly chief attorney for the power *Banco Germanico*. All these men were most positively pro-United Nations. The lawyer, in fact, was a Jew who had refused to *heil* a picture of Hitler

hanging in the entrance to the German bank, his former client.

As to the head of the Santiago brokerage house, Chilean sources reported, there was no doubt that he was a man both reputable and respected. His firm was above reproach. It dealt with the most prosperous and influential investors in Chile, had market connections in New York, London, Switzerland, Montevideo, Lima and Buenos Aires and carried sizeable balances in American and British banks.

In Santiago, it was true, there did exist, *sub rosa*, a flourishing black-dollar market. Fugitive American dollars were half price, and it paid to get them into American banks up north and then draw checks against them in Chile worth a hundred cents on the dollar. If Juan Karlezi had wished to purchase black dollars he could have done so in many places. The *Casa Weiss*, for example.

But it was incredible that this particular brokerage house should have lent itself to such a dubious and dangerous trick. It had too much at stake with its large deposits and accounts in New York and London.

Thus the Chilean reports. . . .

The broker himself, interviewed at his Santiago office, only added more to the mystery. Much concerned, he nevertheless professed himself at a loss to explain the transaction. The facts, he said, were as follows:

On December 10, 1942, twenty days before Dr. Schnake's deposit was made in New York, Señor Karlezi's commission agent had visited his brokerage house in Santiago.

This agent had told him that Señor Karlezi was expecting a deposit shortly of some \$10,000 in his New York bank account, the money being part payment for certain merchandise which Señor Karlezi had sold some time ago. If this \$10,000 were transferred to the New York bank account of

the brokerage house, would not the broker, inquired Señor Karlezi's agent, give Señor Karlezi his check for the amount in Chilean pesos?

Other than this \$10,000, the broker recollected, there had been no mention of any personal cash deposits by anyone in his New York bank. He had considered the transaction as merely a transfer of cash already banked, and had agreed upon a rate of exchange with the agent.

A week later, however, the same agent had come back to the office to explain that there had been some delay in Señor Karlezi's merchandise transaction, but that arrangements would be complete the next day. At the same time he had offered \$6,400 more in American cash at the rate previously agreed upon. This deal had also been accepted by the broker.

On the day following, the agent had returned for the third time to assure them that Señor Karlezi's New York deposit was now being made. And he had offered the broker a further \$20,000 in American cash. This the broker had also accepted, with the understanding that the transfer of existing funds in New York was being made that day.

Agreeing to this, the agent had then disappeared for a week and neither he nor Señor Karlezi could be found. During his absence the broker had received the cable from his New York bank. But almost simultaneously Señor Karlezi himself had returned to assure him that now everything was in order. Shown the queries in the cable, he had promised that if the broker would accept his suggestions for a reply cable the New York bank would be able to clear up the matter at once.

Hence his cablegram, relaying the explanation of Señor Karlezi.

This, stated the broker, had been the total extent of all action by his firm in the affair—one in which he and his partners felt they had been somewhat taken advantage of by a

person of seeming distinction. They themselves were wholeheartedly pro-Ally, as their reputation would testify.

What was more, pointed out the broker, his house had lost \$4,000 on the transaction, a little detail which perhaps belonged in the record. For they had cashed a check to that amount as a favor to another of Señor Karlezi's associates. Drawn on still another New York bank, the check had since been returned marked "No Funds." In explanation, the drawer had said that a deposit of \$4,000 had been promised to his New York account; it also was to have been met out of Señor Karlezi's expected New York deposit.

It would seem, the broker remarked, that more people than Señor Karlezi and Dr. Schnake were involved in this business. . . .

To Foreign Funds Control, this newest discovery was much more important than it appeared to the Santiago broker. Somewhere in South America, the Division knew, a "black-dollar ring" was actually in full operation. Was it possible that this little transaction of Karlezi's was in reality but one of hundreds all handled by this very ring?

If so, Señor Karlezi might be an important witness if a way could be found to break his discreet and total silence. Otherwise, the mystery remained. Where the \$32,200 had come from, how it had arrived in New York, what connection it might have with similar transactions: no one knew any of these things.

On March 25th, therefore, Foreign Funds Control acted.

Without warning, it blocked all the accounts of the Santiago brokerage house in the United States, and refused the firm any further use of American financial facilities. To the Division, pro-Ally as the brokerage house appeared, such drastic action seemed fully justified. Investigation of all its international transactions through New York had indicated the need of a thorough airing of them with the Treasury.

Censorship intercepts of cables and letters, as well as Wall Street financial records, had disclosed many dealings with blacklisted firms and individuals, cashing of black-dollar checks originating in Panama and Peru, and a record of \$2,000,000 in American dollars sent from Chile through Wall Street to banks in the Argentine.

Indeed, to judge from the factual records alone, the affair of Señor Karlezi was either another in a long list of transgressions of which the broker was guilty, or else a plausible explanation could be given for each separate transaction—including one for Señor Karlezi.

Explain or stay blocked, said the Treasury's action to the brokerage house. Although nearly four thousand miles away from Santiago, Foreign Funds Control meant business.

Results were instantaneous. . . .

In a midnight session in Santiago, held at the broker's request, American representatives went over the books of the brokerage house. To each charge in turn the broker made answer.

The so-called "black checks" now under question, he pointed out, had originally been issued by American banks in Panama and Peru. How could he have known American bank checks might be treasonable?

The large transfer of dollars to Argentina? Those had only been made in the course of his normal business. There was naturally a great flow of legitimate money from his clients to Buenos Aires. Inflation might be approaching in Chile. And Chile was not at war with the Axis. The Chilean Government itself winked at evasions of its own Foreign Exchange Control. Smugglers over the Andes took out and brought in whatever and as much as they liked. How could one know?

To Foreign Funds' investigators, the broker appeared

curiously convincing, truthful beyond any doubt; his accounts in good shape.

But Karlezi? And Ambassador Schnake? And the black-dollar ring? In particular, the \$32,200 deposit? What was the explanation of that?

"I myself will handle Señor Karlezi," announced the broker quietly. "I will produce the explanation."

Within twenty-four hours the Chilean was as good as his word.

Said a message from him to Juan Karlezi: "I challenge you as a gentleman to set forth all the true facts of your relationship with my firm and Dr. Schnake." To the broker, both the high reputation of his house and his personal honor were at stake.

Two days later, at a confidential meeting in Santiago with American representatives again present, Señor Karlezi met the broker's challenge.

Letters, cables, documents and personal memoranda—all were brought forward. The broker was entirely innocent, Señor Karlezi admitted. The "certain party" in New York was also innocent. Nor was there any connection with a smuggling ring. Unhappily, the entire affair was highly personal; its explanation could not be released to the Chilean public. So far as Karlezi himself was concerned, the \$32,200 in New York could remain frozen indefinitely. He did not propose to embarrass the United States.

As a matter of fact, the public was never directly informed of the explosive facts disclosed at this conference. Not until June 23, 1943 did the whispered story finally reach the stage of public gossip.

On that day in *El Imparcial*, well-known newspaper in Santiago, there appeared a widely discussed editorial—one which, figuratively speaking, caused Foreign Funds Control in Washington a slight twinge of regret.

Said the Chilean editorial:

For some time, and with increasing persistence both in Chile and the United States, rumors have been circulating which affect the prestige of one of the Ambassadors appointed by the present Government.

We refer to the case of Ambassador Schnake who is said while on his way to his post in Mexico to have taken into the United States from Chile an appreciable amount of dollar bills whose importation is forbidden by the American Government for the duration of the war. The amounts involved in this transaction are not fabulous, as many people believe, as it involves \$50,000 more or less. . . .

Now the entrance of these dollar bills into American territory is practically impossible unless one has the special privileges which are only granted to diplomatic representatives. The congested customs in the New York, Miami and Brownsville airports are inflexible in this respect with all American citizens or foreigners who enter the country, and at present nobody is allowed to bring in bills for more than \$50. But how can these authorities search the inviolable valise of a South American diplomat who enjoys the privileges conferred upon him by international law and the cordial protection offered by the good neighbor policy?

Such is the case which it is said occurred with Señor Schnake, who did not take into consideration the fact that the bills he took into the United States were registered by the American authorities, and which on being deposited in a bank in the United States would expose the person who had brought them into the country. . . .

Followed a lengthy essay by the editor on the moralities involved, the previously high character of Ambassador Schnake and an exhortation to that gentleman and to the Chilean Government to clear the matter, letting the chips fall where they might.

All Chile awaited the answer.

And in due time from his Ambassadorial residence in Mexico City, Señor Oscar Schnake made reply.

To his Minister of Foreign Relations back in Chile, he dispatched the following cable, promptly released to an eager press:

I have been greatly surprised by cablegram 42 by which your Excellency informs me of the rumors published by *El Imparcial* to the effect that the undersigned has introduced dollar bills into the United States, thereby obtaining a considerable profit. I beg to declare that I have never effected this operation, neither have I ever profited in the different official positions I have ever held, or ever tried to abuse the internal regulations of the friendly countries I have visited.

On the other hand, I have not drawn checks or documents either directly or indirectly other than those which correspond to personal banking operations in Chile, which are known to your Excellency. . . .

I trust that my exposition will serve your Excellency to deny the slanderous article of *El Imparcial*.

Such was the answer of the Honorable Doctor Schnake. Once and for all the delicate facts had been skillfully avoided.

Did Dr. Schnake really bring in \$50,000 in black dollars to make a \$25,000 profit for his campaign manager back in Chile?

No one knows—except that no effort has ever been made to get back the \$32,200 New York deposit.

TO THE Treasury, the main point in the mystery of Ambassador Schnake and his New York deposit was that Foreign Funds Control, grown steadily more powerful since that tenth day of April 1940, had proved its mettle in a foreign land thousands of miles from Washington.

Dr. Schnake himself might personally be innocent or guilty. The outlawed money still blocked in Manhattan might be only a few thousand dollars. But the effectiveness of America's new economic weapon had been made unmistakable to every bank and business house in Chile. What was equally important, it had now been made clear that in its economic war against the Axis the U. S. Treasury was playing no favorites. Ambassadors or great brokerage houses, there were to be no exceptions. On South American streets, in the cafés, in the black-dollar *casas* of Valparaiso and Santiago, wherever Chilean newspapers were read, the warning to Axis collaborationists was plain. America meant economic war to the hilt.

This was the Treasury's real victory in that celebrated case. A triumph of principle backed by power—not of appeasement born of expediency.

In addition, Foreign Funds Control itself had been richly rewarded by the incidental discovery of certain long-sought information. This information had turned up in the long list of customer transactions found in the files of the Santiago brokerage house.

This list, sent down from the broker's Lima office up the coast in Peru, had included among others the detailed brok-

erage account of one Carlos Vallarino, acting as agent for his cousin, Anibal Vallarino of Panama City.

Anibal Vallarino! Anibal the *chiva*!

Here was a name already familiar to the confidential agents of Foreign Funds Control. A former Panama taxi driver recently risen in life, Vallarino was possibly a ring-leader in the long-suspected black-dollar ring which still defied Foreign Funds Control.

A full six months before the unfortunate visit of Ambassador Schnake to New York City, Vallarino's activities had first come to the Division's attention. Many reports from South America had given further warning of his suspicious actions. And Foreign Funds investigators had already assembled many of the facts needed to break up his gang and blacklist its leaders.

This newly discovered information might provide the one important piece of evidence still missing.

But first let us review the difficulties so far encountered in the case of Anibal Vallarino *vs.* Foreign Funds Control. . . .

In July 1942 all South American countries, with the usual exception of the Argentine, had agreed to institute financial controls against the Axis similar to those of the United States Treasury. All these nations were friendly to the United States. But only Bolivia, Brazil and Ecuador had made separate declarations of war.

As a result, American missions and embassies in most South American capitals were welcome, but were limited in their activities by the fact that they were merely guests of countries avowedly cooperative. They might request, investigate and report, but they could neither arrest nor command action. And on every side Axis organizations screened and hindered all attempts to ferret out collaborationists or enemies.

Where the Treasury was concerned, only one fact was actually recognized without effort in these countries: that American dollars received in South American banks would not be honored by correspondent American banks in Wall Street unless accompanied by a full and satisfactory explanation of their origin. Fugitive American dollars were known to be outlawed by the U. S. A. and no banking institution could afford to handle them.

Even to this general rule, however, there had to remain one outstanding exception: the Republic of Panama.

In Panama, American dollars were the ordinary currency of the country, and its citizens had long been accustomed to the fact. Shops, banks, cafés, emporiums, shipping agents, American Army officers, Canal Zone employees—all used American money as freely as the citizens of any American city.

In addition, smuggling United States cash into Panama—except through the Customs-guarded airport—was comparatively easy. And once such dollar bills were loose in Panama they were each worth one hundred honest pennies. No ordinary financial control on earth could prevent this without upsetting the whole financial structure of the Republic.

At the airport, in the beginning, traveler after traveler alighting from the planes up from South America had been caught attempting to smuggle in black dollars—\$2,000, \$4,000, even as high as \$10,000. Thorough Customs work had soon discouraged such open attempts.

But there still remained other ways of getting into Panama: from the junglelike hinterland, and from the long frontier and the wild, indented coast on the Pacific. Even a sailing vessel could reach the Panamanian shore in forty-eight hours from Colombia. And up from the south sailed all manner of ships: coastwise vessels, tramp steamers, lighters, ships of the Grace Line, carrying all sorts of cargoes in which looted dollars could be well concealed.

No shore patrol could prevent isolated landings by night from small boats at scattered piers and beaches. No shore patrol could possibly search and supervise every seaman each time he came ashore.

Despite almost constant arrests, therefore, Panama City itself found merchant after merchant, and man after man, unexplainably depositing in hitherto meagre bank accounts one thousand dollars—three thousand dollars—twelve thousand dollars. Questioned, the depositors invented wild stories; confronted with witnesses, they elaborated on still wilder versions. Stores and importers who had once kept meticulous records seemed suddenly not to keep any at all. Confronted by accountants who had formerly audited their books, they furnished many sad instances of theft and robbery, of drastic changes in business policy, of new bookkeeping systems which had rendered old books valueless, not worth saving.

Just one thing favored Foreign Funds Control in its search for important offenders.

For a black-dollar ring of any size to operate profitably and continuously, a bank in Panama City was required. Physically, it was impossible to bring in black dollars from the south and take back twice the sum in actual Chilean pesos or Peruvian soles. You could smuggle in black dollars, perhaps, but to get Chilean or Peruvian money in exchange you had to go to a bank. And in accordance with the currency regulations now enforced by the U. S. Treasury, what one actually received at a Panama bank for American dollars was not foreign currency itself, but a bank check.

This bank check could be mailed south for deposit or taken in person to be presented at a correspondent bank in Santiago or Lima or elsewhere. But only then would currency of the country be made available. Above a stated small amount, no actual currency could be legally carried in or out of the country by travelers.

Obviously, therefore, a Panama bank had to be used to get a bank check, and this was necessary if black-dollar profits were to be cashed and sent south again for repeated operations by a ring. And there were only three banks in Panama: the Panama Bank itself, and branches of both the National City and Chase Banks of New York City.

It was through the cooperation of these banks that Foreign Funds Control first made the acquaintance of Aníbal Vallarino. . . .

On a day in July 1942, a Treasury man, seated in the Foreign Funds Control department of New York's Federal Reserve Bank overlooking the East River, stared hard at a report of all bank drafts purchased in Panama during the preceding weeks. Included in the typewritten list were forty different drafts for different amounts—all drawn to the order of one Carmen Giñer by one Aníbal Vallarino. Their total came to \$80,000.

Very interesting, thought the Foreign Funds' agent, and marked the two names down for investigation.

The drafts themselves, it soon appeared, had been cashed, some in Santiago, Chile, the others in Lima, Peru. All bore the endorsement of Carmen Giñer and of various banks and brokerage houses. Few, as is common in Latin-American countries, bore the names of any further endorsers.

All had originally been purchased in Panama City by Aníbal Vallarino, an individual named in reports as a former *chiva*. This term in Spanish describes the driver of the small "bus-taxis" peculiar to Panama's capital. Aníbal Vallarino, however, had progressed rather incredibly in recent months from such a modest estate. He now lived in splendour, housed in the palatial residence once occupied by a past president of the Republic. He was reputed throughout the City of Panama to be exceedingly rich. This accomplishment, it was said, had come about as a result of buying on

time every truck he could lay hands on, and renting them out to U. S. Army engineers. He had large accounts, it was rumoured, in all three Panama banks.

Carmen Giñer, according to popular report, was mistress to Aníbal, or perhaps his wife—which, it was uncertain. In either case, she had borne him three children. Aníbal himself had a varied marital history. Before Carmen Giñer, he had been married; and beside this venture, he had had two additional children by former mistresses—all now living with his mother.

But evidently Carmen had meant more to Aníbal than the others. For many years now she had been his partner in business as well as in love—perhaps the blind through which he cashed checks and did business.

So much appeared on the surface.

What interested Foreign Funds Control more keenly, however, was the fact that in May 1942 Carmen Giñer, with all three children in tow, had taken a trip to Santiago, Chile. She had carried with her \$5,000 of the \$80,000 bank drafts in question. She had then been followed by Aníbal, himself carrying the remaining \$75,000. According to Customs officers at the Balboa airport, Aníbal had explained at the time that he intended to buy a vessel to be used on a United States construction project in the Galápagos Islands. But, unfortunately, the proposition had not materialized.

What, then, had happened to the checks?

A preliminary questioning of Carmen Giñer, still in Chile, brought forth voluble, but exasperating answers:

Yes, Aníbal had given the checks to her, she said. But she had lost the entire \$80,000 gambling. She had many witnesses, she declared, people who had seen her lose it. . . .

Wasn't she known to be friendly with pro-Axis sympathizers?

That? That was merely all coincidence. She knew nothing of politics. . . .

What of the fact that she had been seen in a movie, exchanging packages with a Japanese?

Very odd. But such happenings were natural incidents of her life. Sometimes even hard for her to remember. It might or might not have been. . . .

Where had Aníbal Vallarino gone when he left her?

Oh, Aníbal had gone to Lima to purchase a line of coastwise vessels—the *Agencia Aguirre*, to be exact. He also desired to hire his cousin Carlos as his agent in Peru. Yes, said Carmen Giñer proudly, Aníbal had always much business to attend to. . . .

With what had he purchased these vessels?

Ah, but Aníbal was rich! He made great sums of money now in Panama. . . .

Faced with such answers, the initial investigation by Foreign Funds Control in Chile got nowhere fast. Obviously, Garmen Giñer was a character straight out of *Alice in Wonderland*.

Back in Panama, nevertheless, investigation proved some of Carmen's statements to be really true. Aníbal Vallarino was indeed very rich, though before late 1941 he had never known a bank account. In the months since he had deposited over \$800,000 in his three accounts. And despite the fact that all his trucking contracts and other public ventures had paid by check, a full quarter of a million dollars' worth of his deposits had been made in cash!

Questioned by Foreign Funds men, Vallarino explained blandly that, in spite of the size of his business, he had never kept any books. Nor had he kept any personal bank accounts. The reason was quite simple. He had always been afraid that his former wife would get hold of his money. He had kept everything in Carmen Giñer's name.

Yes, Carmen had once been his mistress; that was true. But affairs had become embarrassing lately. He had asked

her to move to Santiago so as to be out of the way in Panama. Unfortunately, he had wished to marry again—his bookkeeper. Indeed he had done so. The \$80,000 had been a reward to Carmen for her faithful services. He did not know that she had lost the money gambling. That was too bad. She had not told him.

Those large cash deposits in his Panama bank accounts?

Oh, people paid. He did large businesses.

As much as \$260,000 cash business in six months—above his regular trucking receipts?

Vallarino shrugged his chunky shoulders. Yes, he admitted, he had bought the coastwise vessels of the *Agencia Aguirre* for \$300,000 sent by wire to Cousin Carlos in Lima. He could use those boats up the coast in Costa Rica, bringing supplies to U. S. Army engineers working on the new Pan-American Highway. What was wrong with that?

There was nothing at all wrong with that, the investigators granted; nor with any of his statements. Unless, of course, the boats had been bought to smuggle black dollars to Panama. And unless payment for them had included black-dollar profits repaid to someone, somewhere. And unless he was banking a quarter of a million black dollars every six months. And unless Carmen Giñer hadn't lost the \$80,000 at gambling after all. . . .

From here on the investigation became arduous and detailed.

Vallarino, it developed, had an uncle in Panama, a former partner and various hangers-on. In Lima he had his cousin Carlos and a brother. All were mixed up in Aníbal's affairs and in various other businesses.

Uncle Teodoro in Panama, for instance, was agent for several Ecuadorian and Peruvian exporters as well as for Aníbal's new line of ships. One of these exporters had recently been convicted of smuggling \$4,800 in black money from Guayaquil through the Balboa airport. In Uncle Teo-

doro's files at the same time had been found an undestroyed cable concerning a shipment from Guayaquil. In the message the word "hats" had been unmistakably used—*sombrero* being current Latin-American slang for "black dollars."

Uncle Teodoro, it appeared, was also in the habit of telegraphing money in large amounts to Cousin Carlos in Lima. And occasionally he cashed traveler's checks for passengers leaving ship in Panama who did not care to go to a regular banking establishment, because their names, unfortunately, did not appear on the checks they carried.

Meanwhile in Lima, Treasury men found, Cousin Carlos ran the office of the new shipping line with the help of Aníbal's brother. Neither one had had a cent of his own until the advent of Aníbal in Lima. Now both were rolling in money. They shipped all sorts of things up the coast to Panama to Uncle Teodoro—legitimate exports, of course, but cargoes in which currency could find many natural hiding places.

As to Vallarino's hangers-on in Panama City—men with dubious records whom Aníbal had hired immediately following their arrival in Lima—every now and then one of these shifty-eyed men would take a trip back to Lima by air, carrying bank checks with him.

One such hanger-on, by name Mindreau, questioned as to the necessity for taking such large bank checks with him on these trips, protested that it was always quite essential. On the trip in question, for example, he had taken the money along to buy a diamond ring for a Panama friend. When the friend named could not be found for questioning, nor the ring itself located, Mindreau changed his story to another which he swore gave the real basic reason. With the money he had merely sought to provide his aged mother back in Peru with cash for her declining years.

No one, north or south of the Rio Grande, could quite be-

lieve this touching story. In fact it was perfectly clear to Foreign Funds Control that not one of the entire outfit was telling the truth.

But to find actual evidence of what was going on was most difficult.

Strangely enough, just as Foreign Funds Control had resigned itself to months more of patient watchfulness, the case suddenly broke: in three different places, at three different hours, and into three different pieces, all of which fitted neatly together.

The first piece was wholly fortuitous and purely melodramatic:

Straight to American representatives in a South American west-coast town came a furious young woman, deserted fiancée of one of the most unsavoury of Vallarino's hirelings. This undependable character had not only left his fair fiancée flat—but also flat broke. He had deserted her, the señorita swore to an interested audience, to engage in smuggling. Smuggling of illegal American money for Aníbal and Carlos Vallarino. She would like to have him arrested.

And the source of this illegal currency? Did she happen to know that?

Yes, her fiancé had once told her while they were still together. Hidden up in the mountains over the city there was a trunkful of millions of dollars in American money. Brought from Europe by a German submarine. . . .

The second piece of the puzzle was much less melodramatic, but it added even more to the necessary facts. This was our old friend the Lima record of customer transactions found in the files of the Santiago brokerage house during the Schnake case. Down on the books of the Lima office was a list of purchases by Carlos Vallarino of Chilean pesos running into the hundreds of thousands. Carlos Vallarino—Aníbal's cousin!

And why was Anibal so greedy for pesos? In Chile?

The third piece in the broken case supplied the obvious answer.

Into a money exchange shop in Santiago sauntered a man described by himself as "a prominent businessman of Panama." The shop was a money exchange, the prominent businessman observed, and he wished merely to exchange a small bill. He was visiting Chile only—down on a short trip from Panama City.

The proprietor showed sudden animation.

Panama City? Why, that was the city of Señor Anibal Vallarino! Vallarino's agents bought every American dollar anyone could find—anywhere at all. Remarkable, what Vallarino did with the money. Remarkable man, Señor Vallarino. Would the businessman from Anibal's city by any chance himself like to use his Chilean pesos to buy half-price American dollars? . . .

To Treasury agents, impatiently awaiting the "businessman's" return, the evidence thus gathered completed the tantalizing puzzle of the Black-Dollar Ring. Two months later Foreign Funds Control blocked every Vallarino account in Panama City, refused any further use of banking facilities to all members of the gang in all lands, and placed each one on the Proclaimed List as enemies of the United States.

How the secret ring operated had become perfectly plain.

Carmen Giñer's original collection of bank checks for \$80,000, cashed for pesos in Santiago, had bought a straight \$150,000 worth of black dollars in Chile. Smuggled north to Panama by Anibal, this \$150,000, added to what he already possessed, had made possible his telegraphic transfer of \$300,000 to Lima, with which Cousin Carlos had bought the ships of the *Agencia Aguirre*.

The installation of Carlos as business agent in Lima had then introduced a new change of pace: the transfer of bank

checks by mail from Panama to Lima to Santiago, where Carmen merely used the pesos to buy more black dollars to send to Panama by the *Agencia Aguirre*. All other transfers made by friends, minor relatives and hangers-on had been additional transactions over these well-worn routes.

With such a fleet of ships to use for smuggling, and with such constant changes of pace, Vallarino's black-dollar transactions could not be easily traced.

For a simple taxi driver of Panama, Anibal Vallarino had done well indeed. So well, perhaps, that the question naturally arises: who taught a Panama *chiva* to be suddenly so clever in all the intricacies of foreign exchange?

To this question the answer is, of course, that as in all rackets where the stakes are large, and the front-line gangsters run low in the social scale, there were and are higher-ups. Both in Europe and the Western Hemisphere, larger game than Anibal Vallarino has been constantly afoot, and the men of Foreign Funds Control know this well.

Only recently, a Spanish Falangist was detained by the international police in Valparaiso as he tried to come ashore with over \$200,000 in American dollar checks, plus two complete books of traveler's checks. Despite his efforts to bribe the Chilean authorities, and notwithstanding loud protests by the Spanish Consul, he was denied entrance. But his sponsors in Spain will try again.

In Switzerland just before Hitler fell, a suspected firm—promptly blacklisted—was caught trying to sell a round six million in black dollars in Portugal at a 60 percent discount. The largest discount yet—forty cents on the dollar, but a sizeable sum just the same. Looted money could be sold cheaply and still bring a profit.

In the Argentine, postwar reports show no lessening in the assets of certain newly incorporated German concerns which have as yet done little actual business. And one of the latest reports dealing with the traffic indicates the receipt by

a German agent in Latin America of nearly \$2,000,000 in looted cash and securities still to be disposed of somehow in the Western Hemisphere.

The probabilities are that hundreds of millions in outlawed cash are still lying idle in powerful hands in South America. Running down black-dollar higher-ups will keep Foreign Funds Control on its toes for a long time.

HISTORIANS of World War II will undoubtedly note that, as a prelude to treachery, Japanese agents in the United States devoted themselves almost entirely to lulling suspicion of Japan, and to creating feeling against Britain's supposed record and aims in India and China. In this propaganda, Japan was invariably pictured as civilized, peaceful and long-suffering. Germany was described as powerful but with no designs on the Western Hemisphere.

Great Britain, on the other hand, was always painted as greedy and cowardly, seeking only to make a cat's-paw of the United States in the Orient. To foster such ideas many a clumsily written article and pamphlet was ordered and paid for by Japanese consuls and their agents in a campaign that approached the fantastic.

Usually these tracts dwelt upon Britain and the Chinese opium traffic, or Britain's alleged use of America in China to pull her own chestnuts out of the fire. But almost anything that might remotely serve their purpose could be sold to the ingenuous Japs by unscrupulous press agents.

One example was that of an individual who published a small monthly pamphlet, each issue of which was subsidized and completely devoted to a single chosen subject. The entire edition was then mailed to a selected list of some 10,000 editors, financiers, Congressmen, Senators and politicians—so-called "Moulders of Opinion." The cost was small, the pamphlets' material being written by the author-publisher to satisfy the purchaser of each edition; and the resultant profit was sizeable. For one such custom-tailored edition of 10,000 mailed out, the Japanese Consul in New York paid \$7,000.

Its effect upon public opinion was probably worth about seventy cents.

In addition to many such efforts, an occasional newspaper or publicity hanger-on was bribed and here and there a magazine or syndicate publisher was subsidized—one, according to his story, by large packages of bills which were anonymously thrown over the transom of the magazine's Wisconsin office door during the hours of darkness. This was *Scribner's-Commentator* with its mysterious new publisher, Douglas Stewart, and its slick new editor, George Eggleston.

Where outright bribery was concerned, the transparent attitude of the Japs in their approach to a desired stooge was laughable in the extreme. The usual method was to arrange on some lofty pretext a three-cornered luncheon with the intended victim, and then ostentatiously to leave a thousand-dollar bill under the napkin of the man already in Japanese employ. Smiling explanations and offers usually followed.

To anyone with experience in the publishing or publicity business, what the Japs really wanted was so obvious at the start that it usually spoiled a good luncheon. Sometimes, though, men were talented but avaricious. One man, contributing editor to a magazine of which the writer was then editor-in-chief, was stupid enough to allow his own publications, *The North American Review* and *The Living Age*, to be thus used.

In the end he was tried, convicted and sent to prison on the charge of not having registered with the State Department as a foreign agent. The principal crime of most such men was probably stupidity and a personal conviction that they were taking the Japs for a ride.

Nevertheless, such efforts must have appeared to the Japanese to have had a greater effect than they really did. For actually, in 1940, Japanese attempts at propaganda were the joke of New York's editorial world. Few Ameri-

cans believed, anyway, that Japan would dare to attack the United States. National complacency was high. The odious label of "warmonger" was easily fastened on any American who tried to warn his countrymen of Japan's true character and intentions.

On the economic front, on the other hand, matters were different. At the outset the trade war between the United States and Japan was fought between rival textile manufacturers for Oriental markets. When, however, Japan invaded North China in 1937 and thereby revealed her unmistakable militaristic ambitions, the United States first placed a "moral embargo" on the export of airplanes to Japan, and then in 1939 extended this embargo to high-octane gasoline. In July 1940, Congress terminated the "Most-Favored-Nation" Treaty with Japan and empowered the President to prohibit or curtail the export of all basic war materials. As a result, Mr. Roosevelt refused further Japanese bids for machine tools and aviation fuel, banned the export of iron and steel scrap, and finally instructed the Treasury to keep oil from the Japanese by the device of refusing to permit payment.

These measures constituted what some foreign commentators have since called "America's provoking of Japan into war."

Equally as drastic as any of these actions was something seldom mentioned: the "freezing" of all Japanese and Chinese funds in the United States in July 1941 and the strict enforcement of an embargo on payments among the three countries. After July 26th this prevented the movement of nearly all goods between the United States and Japan. Not only were oil and scrap iron cut off from the Japanese, but also cotton, wheat, flour and innumerable other commodities necessary to Japan's economy. By arrangement with the Netherlands East Indies even Dutch oil for Manchuria from the East Indies was thus stopped.

To the Japanese, engaged in a continental war against

China, this was genuinely irritating. And the inclusion of China in the Treasury's embargo was not only unexpected but a serious backhanded blow. For it gave Chiang Kai-shek a valuable economic weapon to use in his fight against the invader.

In mid-1941, as you may remember, Japan was already bombing Chungking so severely that business and telegraph communications had become exceedingly difficult. Addresses for Chungking officials often read: "Second Range of Hills beyond the River Valley." Elsewhere, also, the war was going well for Japan. From Manchukuo to Nanking, puppet governments collaborated with the Japanese Army. China was split nearly in half. And while Shanghai and Hong Kong still dealt with the United States and with the eastern possessions of the British Empire and the Netherlands, the majority of the commodities bought were transshipped to Japan or Japanese-held China.

To stop this trade, Chiang Kai-shek had already forbidden, unless official permission was secured from Chungking, the importation into any part of China of every product the Japanese could possibly use. The list of these products ran from hides to kerosene, from laces to brandy, from tobacco to jewelry. But any effective means of enforcing the decree was at first lacking.

The new embargo by Foreign Funds Control filled this need. Prohibition of payments to and from China, followed as it was by similar British action, made Chiang Kai-shek's own embargo real and earnest. The reason was simple. Although China's commercial banks did most of China's domestic business, fourteen international banks, mostly American and British, financed China's overseas trade. Without their services, import and export of goods was impossible. As a result of the Treasury's embargo, every American dollar and English pound in these banks became useless. Japanese

foreign trade through China's coastal cities came to a standstill.

Meanwhile, Chinese decrees from Chungking itself soon froze all dollars and pounds in the Chinese commercial banks outside Japanese-controlled territory. As a result, no foreign institution, nor any bank in Free China itself, could use or procure foreign currency for payment except by licenses from Washington or London or by application to the Central Bank of China. Needless to say, no applications were approved for goods which could reach the Japanese or their puppets.

To help the Central Bank of China in handling this intricate situation, a loan of \$50,000,000 was made to a China Stabilization Board set up by the U. S. Treasury to meet legitimate demands for foreign exchange. The net result was to support the foreign value of the Chinese *yuan* and reinvigorate China's buying power. The Japs were left out in the cold.

Naturally, the Japanese Government retaliated with economic measures directed against British and American concerns in Manchuria and Japanese-controlled territory. But it was clear from the beginning that the Japanese did not actually understand the workings of Foreign Funds Control until it was too late. Otherwise they would have instantly hired "cloaks" on the China Coast and set up a conduit through which vital materials could have been channelled to Japanese-held territory.

Where the American mainland was concerned, however, Tokyo was tipped off early in 1941 by her American spies that some kind of "freezing" of all Axis funds in the United States was imminent. Gradually, therefore, millions of Japanese-owned dollars normally flowing from South America to New York were diverted to Japan. Payments from Latin-American countries were arranged so as to flow directly to

Japanese banks. Japanese espionage and propaganda in Chile and Argentina were paid for by merely reducing commercial accounts still owed by Latin-American importers to Japanese business houses in Kobe and Yokohama.

In the late spring, as a final move, Japanese ships began to keep away from American ports. Japanese-American warehouses were gradually emptied and Japanese banks in the United States shifted their main assets to their home offices or to other branches in Mexico, Brazil and the Argentine.

For example: During the six months before July 1941, the Yokohama Specie Bank in New York reduced its holdings from 70 millions to 40 millions. The assets of the Sumitomo Bank in New York fell from two millions to half a million. Important trading companies like Mitsui and Mitsubishi sent so much money home that barely enough was left to pay current bills. Assets of the Nippon Yusen Kaisya, the great Japanese steamship line, shrank so tremendously that its American creditors eventually collected less than forty cents on the dollar.

To cover up such actions, Japanese diplomats in Washington pretended that their Emperor wished peace, and that good long-range commercial relations with the United States was the ardent hope of all Japanese businessmen. To strengthen this illusion, such Trojan horses as the Pan Pacific Trading and Navigation Company were trotted out.

This mysterious company, of which most people have never heard, never had any assets. Set up in August 1939 in Los Angeles, it was first suggested to a West Coast newspaper publisher over the long-distance telephone from Kobe, Japan. The promoter was the former Japanese gardener of the publisher's mother. According to this promoter, half of the proposed capital of Pan Pacific was to be subscribed by Japanese businessmen, the balance by Americans. It was to be a symbol of Japanese-American commercial friendship. As a matter of fact, none of the company's 300 million dol-

lars capital was ever paid in. Pan Pacific never had any offices. Its representatives took large orders for Japanese goods to be later delivered in America. It made clumsy efforts to charter ships to make Japanese deliveries. But it never completed a purchase or leased a ship. Actually, all its agents and promoters ever did was to discuss the company's intentions heavily in many interviews with American corporation executives and with high officials of the State Department.

Beyond doubt the main purpose of all this hocus-pocus was to get American information from high sources and to deceive influential Americans into thinking that the Japanese were busily doing business as usual, when in reality they were preparing to strike at Pearl Harbor. For one-half of Pan Pacific's 300 million dollars capital was to have been subscribed in Japan. And no such enterprise could even have been proposed in Nippon without the consent of the great Japanese banking families directly affiliated with the Japanese Army.

In general this was the pattern of Japan's prewar actions in the United States. Unlike the Germans, who used their industrial concerns and patents to restrict American production and to finance espionage and propaganda, the Japanese used their American properties mainly to buy American products essential to their war machine. When Foreign Funds Control finally seized the Japanese assets in America, their value was scarcely one-half the value of the German expropriated patents and chemical and electric plants. And of the 150 millions seized, the bulk was in cash and securities.

Included in the seizure was only one unexpected windfall. This was a mass of business documents which recorded the use that had already been made of Japanese money in buying for her war machine. These documents included the ledgers, letters and invoice files, as well as the orders and inquiries, of Japan's great financial and trading companies.

They showed, first, that behind the façade of peaceful commerce many Japanese companies had engaged in espionage. From their branches in New York, South America and the Netherlands they had traded in military information precisely as they traded in silks, machinery and canned fish. For years Japan had received exactly the same kind of detailed information that the Germans got through General Aniline and their other pet cloaked corporations.

Adding to this discovery was the fact that many Japanese business houses had been unable to burn all their huge files before the attack on Pearl Harbor. The remaining ones afforded invaluable information to the American Government as to Japan's exact situation where trucks, airplane instruments and armament materials were concerned.

In dozens of instances complete files of such correspondence were captured intact by agents of Foreign Funds Control almost before the last bomb had finished exploding on Pearl Harbor. The documents seized in Mitsui's New York branch alone weighed more than thirty tons. Already completely organized, the Treasury Division let no one escape. As you may recall, the news of Pearl Harbor arrived in Washington about twelve o'clock Sunday noon, December 7th. By nightfall every Japanese Treasury license in the United States had been revoked and agents were padlocking every Japanese business establishment in the country.

Even market gardeners and vegetable jobbers were included. Consequently, for many days thereafter Los Angeles and San Francisco went almost without fresh vegetables. Then the FBI proceeded to intern thousands of Japanese suspected of espionage and sabotage, including most of the alien managers of the American branches of the great Japanese business houses. But Foreign Funds Control had already shut down their enterprises—485 of them. The assets seized ranged from a million dollars in heavy machinery or-

dered in Pittsburgh by Mitsui to the small stocks of vegetables and fruits carried by West Coast greengrocers.

Included, incidentally, was the New York Nippon Club's famous collection of pornographic etchings; also maps, charts and photographs of America's coastlines—and the excellent cameras with which these pictures had been taken. Into the hands of the Treasury, also, fell the rare and expensive ornaments of art shops like Yamanaka in New York City, the property of scores of little laundries and bakeries, and the bank accounts of hotels and restaurants scattered from Boston to Honolulu.

Precisely how devastating this action was to the financing of any further Japanese espionage work in the United States is well illustrated by the case of Kenji Iki and the United Ocean Transport Company of Seattle, one Japanese concern that tried in vain to evade the regulations of Foreign Funds Control.

EARLY IN December 1941 the United Ocean Transport Company, Ltd. was simply a humdrum Japanese shipping concern of long standing, well thought of in Seattle business circles. It was run from headquarters in Kobe by a Japanese board of directors, while in America domestic concerns acted as agents in various Pacific Coast cities.

The company had an important branch office in Seattle, located at 1629 Exchange Building. The manager of this office was a California-born Japanese named Kenji Iki, for eighteen years a valued employee of the company. His chief assistant was a Japanese subject, a certain T. Kobayashi.

Kenji Iki himself, however, had more than a straight business relationship with the United Ocean Transport Company. One of the Japanese directors in Kobe, Rokura Konno, had married Kenji's sister and she now lived with him in Japan, mother of his two children. Rokura Konno travelled from Kobe each year to make a routine check on the Seattle office. Usually he stayed on for a month or so, pleasantly renewing old times with Kenji Iki and with his other brother-in-law, Katsuki Iki of Los Angeles. Katsuki himself operated an American branch of the Hinode Petroleum Company, also directed from Kobe. To the United Ocean Transport Company he sold oil for its steamships. The two brothers and Rokura Konno were thus very close.

The shipping company itself first came to the attention of Foreign Funds Control in July 1941 when, as required at that time, the company filed its Form TFR-300. Kenji Iki himself, as manager of the Seattle office, took care of this matter.

Disclosed in this report were the ordinary business transactions and financial arrangements to be expected of any steamship company in the Oriental trade. Except for office equipment, its assets were stated to consist of a bank account of some \$60,000 and a quarter of a million dollars devoted to deposits for various purposes: membership in the Atlantic Coast Far East Shipping Conference, claims for dock damages and suits to recover damages arising out of collisions or faulty stevedore unloadings.

As a result of this Treasury report, the 15-day special license under which the company was first permitted to continue business was soon changed to the more privileged one of a generally licensed "Japanese national." To Foreign Funds Control, a careful reading of Kenji Iki's sworn statements had revealed nothing suspicious about the firm's affairs.

Nevertheless, at the opening of business on Monday, December the 8th, the office of United Ocean Transport was padlocked by the Division along with other Japanese companies. Now regarded as an enemy alien—since we were at war—the company's files were first subjected to intensive scrutiny by Foreign Funds agents. The employees in turn were then put under the microscope. T. Kobayashi, the Japanese assistant manager, it was found, had departed for Japan on November 4th. But Kenji Iki, American-born citizen, still remained. As manager, thought the agents, his personal affairs might prove worth investigation.

An interview with the suave Kenji Iki, however, turned up nothing very startling at first. The manager's personal affairs, except perhaps for his bank account, seemed to be in perfect order. Even in his bank account only two items appeared which seemed to need any explanation: two large deposits. If Kenji Iki could explain these to Foreign Funds Control, United Ocean Transport Company might be checked off as having a clean record.

At this point it must be remembered that the Treasury knew quite well that Kenji Iki was not a rich man. His bank statements showed that he received a regular salary which ordinarily he banked each week. But they showed, besides, two peculiar deposits, each for approximately \$5,000, made in Kenji Iki's personal account in the four months since the freezing of Japan. Of these two deposits, the first had been made on July 25th, the day before the freezing itself. Why, and from whom, had Kenji Iki received \$5,000 on that particular day?

Politely questioned by the Treasury, Kenji Iki explained that his employer, the steamship company, had paid him this amount as a salary or bonus "advance."

More questions followed:

Why had they done that?

Just as an advance.

An advance for what?

Merely as an advance.

Who had ordered the payment made?

Rokura Konno on his yearly visit from Kobe.

Had such a thing ever happened before?

Well, no. But it was quite understandable. The future was uncertain. As a matter of fact, his assistant, T. Kobayashi, had received a similar "advance" on the same date—also ordered by Director Konno. Kobayashi had departed for Japan in November, and before leaving had asked Kenji Iki to hold this \$5,000 for him until he could return to America. Kenji Iki had deposited this money also in his personal bank account. This would explain the second deposit of \$5,000 which the Treasury had possibly noticed on his bank statement.

Inquired the Treasury: had Mr. Iki reported to Foreign Funds Control his receipt of this money in November from a Japanese subject?

Well, no, he hadn't.

Had Mr. Kobayashi himself reported his payment?

No, Mr. Iki thought not.

Why not?

It had not been known that a report was required.

Yet Mr. Iki had originally filed the TFR-300 of the steamship company, and had at that time understood the Treasury requirements?

Yes, Mr. Iki had.

Had Mr. Kobayashi asked Mr. Iki to hold anything else for him until his return?

Why, yes—there had been a bundle—a package.

And what did this package contain?

Well, that Mr. Iki did not know. It had never been opened. The fact was, said Mr. Iki, he had simply laid it away until Kobayashi's return from Japan.

And Mr. Konno? asked the Treasury. Was Mr. Konno wholly responsible for both payments of \$5,000—one to Mr. Iki and one to Mr. Kobayashi on the day before Japanese funds were frozen?

Well, replied Mr. Iki, Mr. Konno was the director from Japan while here. He outranked everyone in the office—everyone. What he did—what he said—was not to be questioned.

In effect, this was all Treasury agents in Seattle learned from first interviews with Kenji Iki, local manager of the United Ocean Transport Company, Ltd.

Mr. Kobayashi's bundle, opened and inventoried in the Bank of California, proved to contain some Japanese insurance policies and four Japanese Government bonds printed in England. This bore out Mr. Iki's story that Mr. Kobayashi had expected, sooner or later, to return to America.

The fact remained, however, that Kenji Iki, manager of a Japanese steamship office, although in full knowledge of the Treasury's currency regulations, had not reported to Foreign Funds Control the deposit in his account of \$5,000

received from a Japanese subject. Nor had he made known his later deposit of Kobayashi's \$5,000.

Since July 25th, therefore, Mr. Iki had secretly built up a cache of \$10,000 in his own bank account. Was it possible that none of this money was either his or Kobayashi's but in reality the sole property of the United Ocean Transport Company, waiting to be put to some inimical use? If so, was it possible also that there were other facts which Mr. Iki was not divulging? Other instructions which Mr. Konno had left with his brother-in-law during his recent month's stay?

To the investigators, certainly, Mr. Iki had shown himself to be an intelligent, well-informed man. Under the circumstances anything was possible. No clues should be overlooked.

A week later a Treasury agent stood with Kenji Iki and the latter's attorney before two open safe-deposit boxes in the Seattle First National Bank.

One of these boxes had been reported to the Treasury as held in the name of Kenji Iki; the other in the joint names of Kenji Iki and his brother, Katsuki Iki of Los Angeles. But to both boxes, the bank's record showed, the United Ocean Transport Company also had had right of entry. And in them now, before the Treasury man's eyes, lay another \$10,000 in currency and \$50,000 more in Japanese bonds.

Inquired the investigator grimly of Mr. Iki: could these assets be another "advance" from the Ocean Transport Company—also unreported?

Oh, no, Mr. Iki declared this time. This was no advance here. All this money had been simply a gift, meant for him himself. Both the currency and the bonds had been donated during the summer by Mr. Konno as a personal present to Mr. Iki from the United Ocean Transport Company. All the contents of both boxes were Mr. Iki's own property. No

one else's. And why not? After so many years' faithful service . . .

"I see," said the Treasury agent coldly.

By this time, of course, Foreign Funds Control knew well that Kenji Iki was engaged in outright and wholesale deception. He was anything but what he appeared. As a result, a complete investigation would have to be made, not only of Kenji Iki himself but of Katsuki Iki, Rokura Konno and every Seattle employee of United Ocean Transport Company. No intelligent, patriotic American held \$50,000 in unreported Japanese bonds, plus \$10,000 in unreported cash, plus \$10,000 in unreported bank deposits (half of which had been made one day before the Japanese freezing) without informing his Government of all the facts. Especially when such an American knew there was a penalty for failing to do so. A penalty plainly printed at the bottom of the very TFR-300 to which he had so recently signed his name for his company.

Back in United Ocean Transport's offices, another salient fact engaged the attention of the investigators. This was that more than two checks for \$5,000 each had been drawn on United Ocean Transport funds on that twenty-fifth day of July while Konno had been visiting on the Pacific Coast; *four* checks had been drawn.

The office records showed that Konno had first telephoned orders to the United Ocean Transport office from a San Francisco hotel to draw at once for the benefit of himself, Kobayashi and Kenji Iki, three checks for \$5,000 each. The cash derived from each of these checks had then been redeposited in their several accounts. Then Konno had ordered a fourth check drawn payable to a certain H. Murakami, Japanese director of the Hinode Petroleum Company of Kobe: Katsuki Iki's boss.

In other words, Konno and the Iki brothers had all three been together in San Francisco on the day before the Jap-

anese freezing. What else, wondered Foreign Funds Control, had they planned at this rendezvous, besides \$5,000 checks all around?

A check on passport records showed that Rokura Konno had arrived on the West Coast on June 15, 1941 and had departed for Japan on August 4th. There had been plenty of time to arrange many things besides the drawing of checks.

Specifically, had there been a conspiracy to sell unreported bonds secretly so as to produce large sums of cash like that which had so suddenly appeared from nowhere on the modest books of the company?

Inquiry at the Seattle office of a large New York brokerage house—Merrill, Lynch—soon produced an answer.

On June 23rd, one week after Konno's arrival in America, a hitherto unknown customer, a certain Kenji Iki, had opened an account with the Merrill, Lynch office. He wished the brokerage house to sell for him \$110,000 worth of Japanese government and utility bonds. By June 30th, a week later, \$40,000 worth had been sold, at which point the account had suddenly been closed. The unsold securities had accordingly been returned to Mr. Iki.

Who had received the \$40,000 for the bonds sold?

A check for that amount had been mailed to Mr. Kenji Iki.

Where had this been cashed?

On the back of the cancelled check was the answer: at the Bank of California. Also, stamped upon it was the endorsement of the United Ocean Transport Company, Ltd.

So, reflected the Foreign Funds agent, \$40,000 in cash had thus reached the United Ocean Transport Company from the sale of unreported bonds. The freezing order had caught one check—the one for \$5,000 intended for Kobe. But \$15,000 had actually been paid by check to three other Japanese gentlemen. And \$10,000 in cash had gone into

Kenji Iki's safe-deposit box. This made a total of \$25,000.

Where was the other \$15,000, and the remainder of the unsold bonds?

All unwittingly this one was finally answered by Kenji Iki's stenographer-bookkeeper, a plainly apprehensive American woman.

Intermittently for two weeks this lady had been interviewed at her home by special Treasury agents. The agents' manner had been courteous, but their questions each time had been searching. And one thing she had not yet told them worried the bookkeeper beyond bearing.

Just after August 4th Mr. Kenji Iki had asked her if she would store for him somewhere a common wooden packing box—the property, he informed her, of Mr. Konno the Director, just departed for his homeland.

Soon thereafter the bookkeeper had managed to haul this box in her car to her father's residence. It had remained there ever since—down in the laundry behind some trays. The question that was now bothering her was: did these Treasury men know of its existence? Was it something she ought to mention? If she did not, would she herself somehow become involved in Mr. Iki's troubles?

Alarmed over a period of many days by this possibility, and fearing lest the contents of the box prove to be incriminating, she had at last consulted her parents and an attorney. Their advice was unanimous. . . .

On January 16th the bookkeeper surrendered the box in person to Treasury agents at the Seattle Customs office. Opened in her presence, the wooden container proved to be merely a protection for something else inside—a steel strongbox. This, when broken open, revealed \$515,000 in Japanese Government and utility bonds—and yes, \$15,000 in currency.

The entire collection of assets, hidden in the bank de-

posits, the safe-deposit boxes and in the strongbox, had all been the property of the United Ocean Transport Company, Ltd.

Kenji Iki himself had purchased the strongbox, he stated in his confession. Yes, he had concealed many things from the U. S. Treasury. But it was Rokura Konno who, after his arrival on June 15th, had conceived the plot and who had ordered every step of the conspiracy from beginning to end. The final stages of the affair had been executed from the hotel room in San Francisco. But he, Kenji Iki, was himself a mere employee. Rokura Konno was, after all, the director from Japan. Konno had ordered and he had followed orders. So he was not to blame.

Let me say here, however, just for the record, that the judge before whom the case was later tried did not agree with Mr. Iki on this point. He preferred to agree with the facts before him, facts painstakingly gathered by Treasury agents. These facts served to convict Kenji Iki, American citizen, of failure to report, and of conspiring to conceal, the receipt and possession of enemy funds. He was sentenced to nine years in McNeil Island Penitentiary, and fined \$5,000.

The two other Japanese, of course, were beyond reach of punishment since both Mr. Konno and Mr. Kobayashi were for the time being safe in Japan.

As for Katsuki Iki, he too managed to keep clear of his brother's difficulties. The \$5,000 he had tried to cable to his employer in Japan had never left Seattle, and he himself held only \$7,000 in Japanese bonds. These he had received before the July freezing. They represented a personal gift, he insisted—a present to him from his esteemed brother-in-law, Mr. Konno, in appreciation for his services over many years in supplying oil to the steamships of the United Ocean Transport Company, Ltd.

Well, maybe so.

THE ORIGINAL fight by Foreign Funds Control to keep enemy money out of the United States and to shut off all enemy sources of information, and its worldwide battle against German looting, were, of course, vitally important. But by mid-1942 in Washington the struggle to reduce Germany's procurement of war materials from Latin America had begun to take a high place in the activities of the Division. A complete victory was needed south of the Rio Grande, and the victory in Latin America was not going to be easy. The case of Leonard Smit and his industrial diamonds had early made this clear to the Treasury.

This case had come to light directly after Pearl Harbor.

A highly erratic individual, Leonard Smit had been a man who kept the secrets of his business to himself. Formerly of Amsterdam, but since 1936 a businessman of New York City, he had apparently specialized in 1941 in selling South American industrial diamonds and, in particular, in importing them into New York for sale to American war plants.

For some reason unknown to anyone but himself he had always kept his valuable stock in Manhattan after a system so peculiarly his own that it was next to impossible for an outsider to determine precisely what he had on hand, or exactly what he did with it. So highly specialized, nevertheless, was his place in war industry—industrial diamonds are vital in the cutting of hard steel—that by 1939 his company had occupied an almost irreplaceable position.

At the outbreak of the European war, however, he came under the suspicion of the British. Letters from Switzerland indicated that part of his business consisted of importing from South America, and holding in safe custody in New

York, large quantities of industrial diamonds badly needed in British war industry. Further reports on him implied that these stones were not really kept in safe custody; in fact, that they never reached New York at all. Instead, ran the implications, Smit's stones were being shipped to Germany and Japan by some secret method which evaded the British blockade. Both the shipping methods and business arrangements of Leonard Smit were a mystery.

To a Dutch citizen doing business in the United States, the fall of the Low Countries in May 1940 would normally have brought his business affairs—and in particular the details of his payments—under the scrutiny of American banks charged with carrying out the Treasury's instructions regarding foreign payments and funds.

In order to evade such investigation, however, Leonard Smit had at that time represented to his principal bank that, although a Netherlander himself, his concern was owned by a company domiciled in one of the British Channel Islands, and so was itself a "British national" and not subject to license. Temporarily, therefore, he had escaped surveillance.

After Pearl Harbor, however, the suspicions of the British had seemed to Foreign Funds Control to be worth looking into. And a little delving into the affairs of Leonard Smit had disclosed some interesting facts.

One was that his "British" corporation was in fact owned solely by Smit himself, which made it undeniably Dutch and subject to license after all.

The other was that his payments, when not directly concerned with a Venezuelan mining house, appeared to be to and from a certain Elsantum, Inc. of Panama City.

The Venezuelan mining company was owned partly by Mr. Smit and partly by two partners of his, both Venezuelans actively engaged in the diamond-mining business in the Gran Sabana District. Smit got his diamonds there—which

was natural enough. But what and why was Elsantum, Inc. of Panama City?

Though merely an obscure one-door office in Panama City, large payments came from this Panama corporation through the New York clearing house to Leonard Smit's account in New York. Then, through still another bank, other small payments flowed back to Elsantum in Panama. In itself this was clearly something to investigate.

Meantime, also, another thing of interest to the Treasury had happened.

Into the office of a local Panamanian lawyer one day had come a confused stranger. In his hand was a payment of \$50,000 addressed to the Elsantum Company, whose office he could not locate. The payment, he explained, was for industrial diamonds previously delivered by this local Panama concern to Kobe, Japan. How? Neither the stranger nor the lawyer knew. But the lawyer had promptly communicated his evidence to the proper authorities.

In Smit's own correspondence, finally, was found the payoff. A letter, evidently meant to be destroyed, was uncovered by a Treasury agent. In it was a description in detail of the precise method by which the British blockade was being evaded.

A confederate of Leonard Smit in Mexico City was a principal in this plan. To him went industrial diamonds from the Venezuelan mines, which he then embedded in small imitation bits. Dispatched to Leonard Smit in New York City, these "bits" were then sent by air mail to Sweden. In Sweden the recipients dissolved the "bits" in acid and sent the enclosed diamonds on to Germany. German payments were relayed to Leonard Smit via Swiss banks to Panama City, whence came the payments to Smit's account in New York City.

Here was the reason for the existence of Elsantum, Inc.

Obviously the suspicions of the British were justified. Leonard Smit was supplying both Japan and Germany with industrial diamonds sent by air. . . .

Needless to say, Foreign Funds Control ended this type of business shortly after Pearl Harbor. Mr. Smit's industrial diamonds were among the first on a long list of Axis war materials to be immobilized in Latin America. At the time, nevertheless, the case pointed up for the Treasury the endless variety of methods by which vital war supplies from the southern republics might reach an Axis war machine now intent on conquering the world. And, in the months since, the extent and value of these supplies had been dramatically impressed upon all America's economic warfare men in Washington.

As a result, in 1942 the men of Foreign Funds Control realized fully what few people had ever known: the extent to which Germany and Italy had invested in and done business with South America long before the war; and the power of the Nazi-Fascist network which Hitler and Mussolini were now finding ready to their hands.

Due to the prevalence of fevers and chronic diseases in their countries, Latin Americans are great drug takers: a hang-over from the days when, even in a great country like Brazil with her 42 million people living in a land larger than the United States, there was only one real medical school—in Rio. From time immemorial, when a Latin American hasn't felt well he has gone to his pharmacy—not to a doctor.

Many years ago the great German pharmaceutical firms—Schering, Merck, Bayer, Farben—realized this native idiosyncrasy. So, from magnificently equipped laboratories in Germany, they met the situation with popular and carefully graded aspirins, instantines, caffeine: cures for everything from a slight twinge to a menacing fever. These prod-

ucts they packaged and sold at low profits, until German drugs finally captured practically all the huge market.

Long before the war, therefore, from Caracas to Montevideo, German pharmaceuticals, drugs, perfumes and tooth-pastes stocked the local pharmacies of Latin America. German-South American sales agencies had become small factories employing thousands of people. Likewise, Germans had entered other lines of endeavour. Germans had developed rubber and cotton plantations. Germans manufactured electric wire and ran steel mills in southern Brazil. Germans operated wool ranches in Peru, owned railways in Venezuela, banks in Chile, utilities and factories in the Argentine. Italian and German airlines spanned the continent. In countries like Colombia many of the finest residences were owned by Germans.

Possessed of the convenient German capacity for dual citizenship, most of these businessmen had long since become citizens of the land of their adoption. Many were popular and were leaders in their communities. Their financial power was enormous.

At first, when war broke out in Europe, Hitler had seemed far away and the sea change that had taken place in the ownership of German industry, whether at home or abroad, had been little understood by the average South American. Politics aside, Germany was and always had been a natural customer for South American goods: Brazilian cotton and coffee, Venezuelan oil, Argentinian beef, Chilean copper and Bolivian tin. And Germany, in addition to supplying their favorite pharmaceuticals, made other things the Latin Americans wanted: musical instruments, synthetic jewelry, optical instruments, dyes and chemicals.

Also, unlike North America's cash-on-the-barrelhead dealings, German credit was long. Germany meant good business; whereas in great expanses of South America democracy was only a word. To convince Latin Americans, then,

that Hitler was literally bent on conquest and slavery was not easy. Hence the reluctance with which many South American countries climbed on the Allied bandwagon. Hence the downright refusal of Argentina.

Even in 1941, the Treasury knew, nearly all of South America had been slow to realize that every large German concern on the continent had become a Nazi spearhead for conquest. Actually, I. G. Farben money from Brazil financed espionage in Chile and sabotage in Venezuela. Bayer money from Argentina stirred propaganda and revolution in Bolivia. Despite the British blockade a steady stream of radio sets, ammunition, synthetic rubber and detonator caps for dynamite flowed into the countries below the Panama Canal—all from Buenos Aires. And Nazi profits made in Latin America paid for everything. But the Latin-American republics refused to believe.

It was a fact, nevertheless, that long before December 7, 1941 every German resource in Latin America had been devoted to an undercover war against the United States, as well as to the shipment of invaluable platinum, mercury and industrial diamonds to Europe. Money, not guns, was doing the fighting for the Axis in the Western Hemisphere.

Meanwhile, a series of German triumphs had convinced many Latin Americans, whose own countries lacked any great military power, that the day of Axis world domination was actually approaching.

To the United States, bent on protecting the Western Hemisphere, the rising tide of this undeclared war meant that if Axis activities were to be choked off every German firm in Latin America had eventually to be put out of business. True to totalitarian principles, all these firms were making a total and serious contribution to the German war attack on Europe. Ostensibly Latin-American, all were Nazi-controlled,

Short of actual war, however, and without infringing on neutral sovereignty, jealously guarded in South America, the United States had had no weapons capable of doing such a job. Money for our Latin-American friends in the form of Lend-Lease and Import-Export Bank loans might temper the political climate. But what was needed was a realistic, economic club with which to destroy all enemy business houses and their ability to finance the Axis undercover war.

Before Pearl Harbor, therefore, while American diplomats worked to secure converts to the cause of Hemisphere defence, and while an educational campaign from the United States by radio, film and press sought to convince South Americans of the justice and good neighborliness of the Yankee point of view, America's economic warfare men in Washington struggled to perfect such a weapon: the Proclaimed List.

Based on the "Black List" of the British, this American counterpart frankly named America's enemies, and applied to all placed on it the same interdiction already applied by the United States to all Axis and European countries: no payment, trade or communication with those listed unless authorized by Treasury license; no shipments without an Export License.

First announced by President Roosevelt in July 1941, the List said to all South Americans: "You know the Axis abroad. Here is the Axis in Latin America. If you are with us, don't sell them a meal, a suit, a house, a ship or supplies. Don't cash their checks or buy their goods or even write them a letter. Boycott them. They are enemies of the Western Hemisphere."

Hastily gathered together by overworked and understaffed intelligence services, the List in the beginning had many unimportant names on its pages. The Japs were not yet included; Pearl Harbor was still six months away. But

named was every German and Italian business house from the Rio Grande to Patagonia—and all their cloaks and agents.

All Latin America knew precisely what the Proclaimed List meant. To every businessman south of the United States it sent just one message: *CHOOSE—between these people and ourselves!*

Following Pearl Harbor, and the German declaration of war on America, the choice became inescapable. The Latin-American economic struggle was on. . . .

To Foreign Funds Control, the first wartime results of the Proclaimed List were varied and amazing.

In Venezuela, the German-owned railway, though cloaked behind a Spanish dummy corporation, lasted just two days after the United States entered the war. Its locomotives were oil-burning, and American concerns, warned by the Proclaimed List, refused to furnish it with oil. Out of operation for ten days, it reverted to the Venezuelan Government according to the terms of its charter.

In Colombia, the largest bank—one vital to all business in the country—had to come to terms immediately, eliminate its German stockholders and fire its Axis employees. It could do no business in or through New York, and it faced the freezing of its New York funds and a severance of all its international connections.

In Mexico and Guatemala, entire regions came under the ban of America's Black List, regions wholly dominated by German-owned plantations where only the British consul was now permitted to communicate with the outside world.

In Brazil, the great German and Italian airlines lasted only a week. Their gasoline came from a Brazilian subsidiary of the Standard Oil Company of New Jersey.

Not all the news was good news, however. In Buenos Aires a "Black List Club" was formed, in which member-

ship was considered an honour—much like the Dutch Treat Club in New York. For a time, the American head of the Argentine subsidiary of one of our greatest cereal companies refused to abide by the Proclaimed List on the ground that his concern would lose money to its competitors. This individual had to be blacklisted himself, his New York personal bank accounts frozen, and himself fired before he saw the light of patriotism.

Meanwhile, in another great Latin-American capital, cousins and brothers-in-law of high officials turned up as stockholders, directors or officers of enemy-listed business houses. Here pressure was brought to bear on the American Embassy to forget the whole Proclaimed List in the "greater" interests of continental solidarity.

In still another instance, previous purchase by the American Government itself of a certain German concern's product—rubber—operated to keep the Axis firm in existence all through the shooting. Strictly controlled from Washington, of course, such a firm was considered worth more to the Allies alive than dead—but still it existed.

Nor was this all. In many countries even the exact purpose of the List was not clear. For example, among the first 200 names recommended from Ecuador were: a barfly suspected of trying to overhear conversations; a strong-arm man known as "El Matador," the killer; some Jap geologists, a number of German airline mechanics and pilots, employees of firms already blacklisted, some former German school-teachers and sailors—even a few legation guards and house-keepers. These over-conscientious recommendations were obviously more suited to a local police list, not for entry on an instrument of economic warfare.

At the same time, several West Coast countries complained that their Japanese problem was as difficult to handle as our own in California. Guatemala asserted that her officials were losing taxes which would have been paid her

government by German coffee plantations if their coffee were not banned by the Proclaimed List action and made unsaleable.

Cries of revolution were heard.

In fact, during those first months of 1942, from American mission after mission had come one long bitter complaint: "How do our methods work? What are the important inimical practices of the enemy? Send us chapter and verse to convince the government here."

In June 1942, therefore, Washington called the Inter-American Conference and laid its cards on the table: an outline of all measures taken by Foreign Funds Control in its own country; its procedure in seizing enemy businesses inside the United States; and the inside story of how the American banking system, backed by censorship, export controls and naval blockade, was dealing with the war emergency. All details of economic, undercover warfare, the carefully planned strategy used on this secret front, were bared at the Conference.

By July every Latin-American country—except Argentina—had agreed to institute national financial controls similar to those of the United States Treasury. Cooperation had been asked for, and obtained, from each country's central bank as had been done in America with the Federal Reserve and others. This was highly important. For closing a man's bank account is one of the quickest ways of making him change his convictions. Local banks, it had been found, were often hesitant about losing customers, but pressure from higher up could force them to be firm.

At last, outside of Argentina, a real noose could be drawn about the throat of Axis concerns in South America, whether masquerading as Latin-American or not. By late 1942, results were definitely better.

In Chile and Peru, week by week, German banks and insurance companies withered away. Many attempts to or-

ganize new institutions which would cloak for the Axis were discovered and defeated. Even when a new pro-Axis bank succeeded in opening its doors it was soon obliged to shut down.

In the town of Temuco, for instance, center of a large pro-Axis region in southern, agricultural Chile, one such institution succeeded in getting started. On the day it opened for business, however, it found itself blacklisted by both the National City Bank of New York and the Bank of London and South America so that international business was impossible. Its local connections were immediately thereafter broken off by the Bank of Chile in Santiago. As a result, its biggest clients were forced to place their accounts elsewhere, and its Axis customers were left high and dry. Not until this bank had formed a new directorate satisfactory to the American and British Embassies, and had eliminated every Proclaimed List account was it able to resume its business.

Nor were the victories so gained by the Allies simply financial triumphs. After July 1942, up and down the coast, scores of trading vessels could get neither cargoes nor wages for seamen until they had purged themselves of all Axis taint. The largest wholesale house in Venezuela—the only one equipped to distribute general merchandise throughout the country to local retailers—had to come out from behind its Swiss cloak, fire all the scores of young Nazis it had recently employed, and sue for mercy. Recalcitrant Axis houses found their customers circularized, their trade dwindling and their salesmen quitting. Trustees for Axis property and industries woke up to find themselves discharged by bankers who could not afford themselves to be blacklisted.

And there were other equally valuable results.

Utilities unable to meet payrolls, and importers unable to get goods, came in droves to American missions asking for deletion from the List. To win this release they fired their pro-Axis employees, reorganized their stockholders,

signed undertakings to deal only with pro-Ally firms and gave bonds for performance. Such bonds ran into hundreds of thousands of dollars. All money and stock of Axis cloaks were impounded.

Meanwhile, as a threat to every pro-Axis wholesaler and importer, there came the now well-policed shipping policy of the United States. Under this, any reshipment of goods coming from this country to a Latin-American country was prohibited under penalty of blacklisting if the reshipment was found to have reached an Axis concern.

These initial results of the attack against Germany's financial power in Latin America were more than gratifying. But still the really big game had not been shot down: the great Axis spearhead firms which formed the backbone of Axis commercial domination of the southern continent.

Merck, Schering, Bayer, Farben, Siemens-Schukert, Theodor Wills, Hermann Stoltz: these were the armoured divisions of German trade, the latter two so powerful in Brazil that they gave orders to the German Embassy in Rio. Such concerns still resisted and presented a united front hard to pierce.

The reason was obvious. In the United States, with its varied and highly developed American industries, it might be considered fairly simple to seize enemy businesses, control the operation of those necessary to help win the war, and scrap the others. But in most Latin-American countries the proportionate value of existing German industry to each nation's national economy was much higher in relation to the total industrial plant than in this country. In some cases German industry formed the most vital part of a country's entire business structure.

Ranging in interest from breweries to steel mills to tobacco importers, Axis concerns employed hundreds of thousands of South Americans. In addition, almost all had a proper façade of native, nationalistic ownership, precisely

as had General Aniline and Film, American subsidiary of I. G. Farben.

Condor of Brazil, for example, German-controlled airline, was outwardly owned by four Brazilians and only two German stockholders. But the Germans in reality held control, since the German *Lufthansa* advanced great sums to the Brazilian line, as well as taking care of its supply of airplane parts and its very pilots. The planes themselves were also German.

Moreover, this proportionately high value of German business with its noble façade of Latin-American ownership, formed only part of the difficulty. Two additional factors made the position of the German spearhead concerns almost impregnable.

The first was that for a number of years they had been piling up raw materials and supplies in anticipation of exactly such a situation. The second was that they had built up an unassailable control base of operations in South America itself: in Argentina.

In Buenos Aires—untouched and untouchable—sat their own High Command, possessed of their vital "know-how" and of many of the raw materials necessary for reinforcement. From Buenos Aires, Argentinian diplomatic pouches carried to other Latin-American countries the instructions and payments of this industrial High Command. From the Argentine, too, willing cloaks shipped to other willing cloaks in Colombia and Venezuela all desired materials. Under Argentine seal, Spanish ships carried goods to them freely and openly. And the whole traffic moved on without fear of discovery, since it was ostensibly merely between Latin-American firms.

Clearly, only the most drastic treatment could cure such a situation. So in 1943 drastic treatment was applied.

In cities like Montevideo the retail products of the great German spearhead concerns were themselves singled out

and blacklisted. Every pharmacy in such a city was required to submit to the *Centro de Farmacia* an inventory of all products on its shelves made by the blacklisted German firms. This supply was stamped by the *Centro* and its sale permitted. But after these products were gone no more Axis goods were stamped, and without a stamp none were allowed to be sold. In country after country all German preparations were listed, published and their sale forbidden. American substitutes were supplied. Spotters from the British and American Embassies made the rounds among retailers, and offenders were themselves blacklisted.

Meanwhile, the Latin-American governments themselves entered the fight and took realistic action, not by announcing paper rules which could be overlooked or circumvented, but by appointing administrators and controllers who ended all free manufacture of goods and all control over the profits by all Germans. In the end, all the measures of America's Foreign Funds Control were adopted, except that of outright government seizure.

By mid-1943, complete economic and financial controls were operating really effectively in nineteen Latin-American republics. In Mexico, Brazil, and Ecuador, all Axis concerns—spearheads and cloaks together—had even been seized and vested. December 1943 brought final confirmation of the extent of the victory—direct from the mouth of the enemy himself.

Off Gibraltar, the British captured a voluminous mass of secret correspondence intended for Berlin and sent by the German Economic High Command in Buenos Aires. Signed by Heinrich Homann, head of I. G. Farben's Bayer in South America and newly elected Chairman of the German Chamber of Commerce in Buenos Aires, it carried news crushing to the Reich:

In every Latin-American country, and I reproduce here the British digest of the report, the United States has crip-

pled our German organization. No communication can be had with Mexico. In Central America our chief personnel have been taken off to prison. Shipments will no longer be accepted by Brazil. Werner Siering, our head in Chile, is dead by suicide. In Peru the Americans hold control fast in their hands. In Uruguay no druggist will carry our products. In Venezuela Hadamovsky has been forced to flee into the interior. In Ecuador our stocks are gone. In Columbia we are too restricted to make headway. Even Paraguay may be drawn into the war against us. Only in Bolivia will we be able to continue. Time works against us, and we will not be able to prevent one country after another from falling away.

After two years, Foreign Funds Control could see total victory coming in Latin America.

ON JANUARY 1, 1944 in only one country south of the Rio Grande were the Nazis still top dog. This was Argentina, hot spot of the Western Hemisphere. Elsewhere, more than 15,000 individuals and concerns had come under the dreaded sentence of excommunication by Foreign Funds Control. From Panama to Tierra del Fuego, the blight of the American Black List had fallen upon manufacturers, importers, banks, shipping lines and black-dollar dealers. And even in Argentina, where the List was at first treated with such scorn, the U. S. Treasury was on the track of its most powerful enemy: Fritz Mandl, once of Vienna, today of Buenos Aires.

Styled by himself on his arrival in Argentina as a "poor refugee from Europe" dispossessed by the Nazis, Fritz Mandl's career illustrates vividly the type of man who fought the U. S. Treasury in neutral countries like Argentina. Even shorn of the apparent contradictions of his character, he would still make one of the most fascinating portraits of the war. So perhaps a full-length picture of the ex-Austrian munitions king is justified.

Where his contradictions are concerned, Mandl's generosity appears to have been so great that, in Buenos Aires in 1942, he was paying stranded Austrian princes pensions of 1,500 pesos a month. Yet in the same year he buried his own father in the dead of night, lest a public funeral disclose the fact that he himself was half Jew.

Again, his influential friends have long been accustomed to receiving long, affectionate messages from him. Yet he is on record as having discharged without warning 600 faith-

ful employees in one group with the single wire: "Your services are no longer required."

Before he was thirty, his late father gave him the management of the great Hirtenberger Works, the family munitions plant in Vienna. Nevertheless, within five years he was known to have hinted to the Nazis that this same Alexander Mandl was not actually his real father; that in reality he was born the son of an Austrian archduke by the Aryan cook of the original Mandl household.

Only where money and munitions are concerned are there no contradictions in the character of Fritz Mandl.

The truth is, Fritz Mandl was born rich in 1900. The Hirtenberger Works, founded in 1852, suckled him. European wars fattened him. At the height of the Spanish Civil War, Franco was in his debt. Il Duce decorated him for his help to Italy in the Abyssinian war. Armaments have netted him over \$60,000,000 in his lifetime. As a result, weapons of destruction have always fascinated Mandl. He is engrossed by camouflaged land mines which tear off the feet of advancing soldiers. Cartridges, bombs and shells are as irresistible to him as a pretty girl is to a lonely salesman. He understands the merchandise of murder and cannot resist its attractions. One proof is that when he first came to live in Argentina in 1938, he made conventional investments in cattle ranches, mines and a rice plantation. Within five years, however, his overwhelming absorption in armaments had subordinated all other interests to the business of making munitions.

"I can make all the arms Argentina needs," he was boasting to the military leaders of the June 1943 revolution. "You do not need the Allies."

This was the same Fritz Mandl who first came to the attention of Foreign Funds Control in 1941. Long before that, however, he had come to the attention of the Nazis, had left Europe and was making a new name for himself

in Buenos Aires. As early as 1938 in that city he was already claiming to be an Austrian victim of the Gestapo. "I have always followed one direction exclusively," he was telling the world then, "that of an Austrian patriot. Because of it I have lost my country and the greater part of my fortune."

As to this stirring claim, the record shows that when danger first began to threaten Austria in 1937 Fritz Mandl planned at once to abandon his homeland. When the Nazis actually marched into Vienna, Fritz Mandl was not there. He was running the Hirtenberger Works from a villa on the French Riviera, using power of attorney—his favourite business device. His factory executives, left unwarmed, were put into concentration camps by the invaders. But Mandl himself went free.

His political leader, Prince Starhemberg, enlisted in the French Air Forces, followed De Gaulle to London and fought until tropical fever forced him to the ground. Fritz Mandl, however, did nothing of the sort. Taking a favourite female companion, he went to Buenos Aires. There, in elegant and comfortable leisure, he favoured the Free Austria Committee with cash contributions.

Likewise, his story of the losses he originally sustained at the hands of the Nazis was as dubious as his patriotism.

Aligned as early as 1927 with the Austrian Fascists, Mandl armed the Austrian Home Guard by the stratagem of selling ammunition to Mussolini for Il Duce's conquest of Ethiopia. Receiving a rebate of 30 percent, since the ammunition had been overpriced by agreement, he bought arms in Italy. Il Duce at that time approved the smuggling of illegal arms from Italy through Hungary to the Austrian Home Guard. He did not look with favour on a greater Germany. So for Mandl's services the Italian Government made him a *Gran Ufficiale della Corona d'Italia*. The Hirtenberger Works got all the ammunition orders.

When Hitler's invasion of Austria was in the making,

Mandl was thus already on record as having backed the Austrian Fascists, not the Nazis. Fearing this would not meet with Hitler's approval, Mandl made a secret visit to Austrian Foreign Minister Schmidt before the German entrance into Vienna. Thereafter, he departed at once for Zurich, Switzerland. With him he took a personal fortune of 22 million Swiss francs and all the ready cash of the Hirtenberger Works—15 millions more.

This was an official crime: taking money out of Austria. One of the first acts of the invading Nazis, therefore, was to confiscate the Mandl estates for "high treachery," seize the Hirtenberger Works, call a stockholders' meeting and revoke the Mandl power of attorney, an act which disputed Mandl's personal control of the Hirtenberger cash he had taken away.

Faced with this unfortunate situation, Mandl acted with remarkable speed.

Losing the first round of a lawsuit to declare the Nazi's actions illegal, he selected as his personal agents the banking firm of Johann Wehrli, international bankers of Zurich, and sent them to Berlin to bargain with Hitler's henchmen.

For a "poor refugee hounded by the Gestapo" the bargain Mandl got through Wehrli was unique. In exchange for the Hirtenberger cash, he got back his Austrian estates plus a million dollars in English pounds and a million more in German Reichmarks. His personal fortune was not mentioned. Precisely what arrangements were made for the Works themselves, or for Mandl's later Argentinian activities, is not known. But as late as 1944 he was still in touch with the Hirtenberger Works from Buenos Aires, and referred to them airily as "my works in Vienna."

Incidentally, there was just one typical Nazi joker in the deal he made through Wehrli. The agreement was made with the Gustloff Foundation acting for the Nazis, and one clause called for his payment of all back taxes on his estates.

As soon as these taxes had been paid, the Gestapo again seized the estates. The Gestapo was "a different bureau," the Gustloff Foundation explained. Mandl lost his property.

This loss was the basis for his description of himself as a refugee from the Gestapo, a story much appreciated by bonafide refugees who had been dispossessed, imprisoned and tortured by the German secret police.

But to get back to Buenos Aires. Mandl took his first look at Argentina late in 1937. It was not the trip of the ordinary investor. Already the oncoming Nazi storm darkened the sky, and many European capitalists wondered if even Switzerland could provide a safe refuge from the tempest. But Mandl had other plans as well.

Politically he was well received in Buenos Aires. His previous close relations with Mussolini and Franco were of value. He already knew many Argentine Army officers. Some of them he had entertained in Vienna while they were military attachés in Berlin and Vienna. The German Embassy also recommended him.

Argentina he found attractive and civilized, like the Europe he had known. Its people, of pure Spanish blood, were proud of their independence and military leadership. Capital was in demand and opportunities for investment were many: cattle ranches, rice plantations, mines, shipping concerns, textiles and cement. But in particular both Argentina's political situation and the attitude of its army officers seemed to him favourable to a project he had in mind.

According to reliable reports, he returned to the Riviera well pleased. He talked long and seriously with Johann Wehrli, visited the Luxembourg owners of certain Argentinian steel fabricating plants and renewed a number of contacts with Germany.

By June 1938 the Nazi invasion of Austria was a fact and his deal for the Hirtenberger assets had gone through. October saw him back in Buenos Aires. He arrived with a

valet, a secretary and a female companion—of whom more later.

This time he was in earnest. He bought a cattle ranch and a rice plantation, transferred large funds from Switzerland to Argentine banks, deposited 700 kilos of gold bars in Argentina's Central Bank, a like amount in Lloyd's of London, put two million to his credit in New York, and set up in Buenos Aires a personal holding company for his fortune. Included in the list of incorporators was a leading Argentine Nazi. As usual, Mandl himself did not appear. He controlled by power of attorney.

Meanwhile, he entered into partnership with the Fortabats, one of Argentina's leading *estancia* families, invested in plastics, cement and textiles, interested himself in artificial silk and synthetic rubber, and bought and sold a ship to the Japs in the course of another partnership venture.

One thing he did not neglect: his relationship with Argentina's military officers. He sought out in particular General Basilio Pertine and General Juan Batista Molina, both highly placed pro-Nazis influential in the military clique.

In October 1939 he arrived in New York for a visit of seven months. Included in his large entourage was a Nazi SS official, a metallurgical expert released by the great Rheinmetal plant in Germany to help further Mandl's plans. Mandl stayed at the Waldorf Towers, ostensibly to look over the investment field. Among other things he started a moving picture concern, Gloria Pictures, which made only one film—a failure.

But motion pictures were only a side issue to Fritz Mandl. Already his dream had begun to take practical shape: a huge, new and greater Hirtenberger Works rising in Argentina, reaching out to supply all South America. This was the goal he was after—a steel plant like the *Hermann Goering Werke* plus a series of lesser ammunition factories, a munitions kingdom of the south.

In New York he toyed publicly with the idea of bringing American banking pressure to bear on British investments in Argentina so that some of them could be bought up cheaply. But actually he purchased machinery and materials for a large bicycle factory—yes, bicycles, but wait—entered into negotiations for a brass mill, and bought tooling machinery. On the advice of his SS metallurgical expert, he concluded a contract with the engineering firm which had built the *Hermann Goering Werke* and one of Britain's great steel plants. At a cost of \$10,000 he hired this concern to draw up plans and estimates and to survey the field in Argentina for a similar steel plant there.

Then he sailed again for Buenos Aires. He arrived just in time to read in the daily papers of the Allied tragedy at Dunkirk.

Here was an unexpected turn of events. Hitherto, although employing Nazi technological help, he had counted on buying his materials and equipment in the United States. But obviously a victorious Germany could meet his needs better than a defeated Britain or an isolated America.

Within forty-eight hours, therefore—before the last British soldier had been rescued from the Continent—he changed his plans and cabled his old friend, Austrian Minister Schmidt, now in Berlin as director of the *Hermann Goering Werke*. His cable proposed an all-out collaboration in setting up his prospective steel combine in the Argentine. Receiving a quick and favourable reply, accepting in principle, he promptly sent to Germany the detailed plans and estimates already on hand, so complete that they reputedly filled two large volumes.

What he wanted to obtain, he told impressed intimates, was the Krupp process whereby steel is extracted from iron-ore sands such as those which stretch endlessly along Argentina's southern coast. Publicly, he completely forgot his hatred of the Gestapo. His relations with Germany were ex-

cellent, he now boasted. Privately, he suggested to the *Hermann Goering Werke* that in return for their valued collaboration with him he would see to it that the Argentine Government purchased its other steel requirements from them.

Even the efficient Germans, however, must take time to answer letters involving vast projects. In the interval of waiting, the stubborn defence of Britain by the RAF shook Fritz Mandl's confidence in eventual Nazi victory. After all, he was known as a friend of the Allies. He had to have machinery, or else tool it himself.

Cautiously, he resumed his negotiations with the United States. . . .

Meanwhile, he had not been idle in Argentina.

On August 27, 1941, in *Acción Argentina*, appeared a full-page article carrying his genial picture and a description of *Cometa*, his new bicycle factory. The article stated that Fritz Mandl's new venture, already in full blast, had good prospects of securing a monopoly in the Argentine bicycle field.

Oddly enough, this article did not please Fritz Mandl. He had consistently denied to his American friends any idea of making munitions, but tucked away in this newspaper piece was the statement that his plant was so designed that it could be turned to ammunition-making in twenty-four hours. Included, also, was a most embarrassing question.

Under precisely what circumstances, inquired *Acción Argentina*, had Fritz Mandl been able to take a huge fortune out of Austria, when for other refugees to take out a single cent was a crime?

Followed hints of a story already rumoured throughout Buenos Aires. This story set forth that the Wehrli deal with the Nazis had been only part of Fritz Mandl's arrangements. Later, it was whispered, Minister Schmidt had visited Mandl at Monaco and made a second, *sub rosa* deal

whereby a further 55 percent of his Austrian holdings—following suitable emoluments all around—had also been secretly handed over to him.

What was the truth, wondered Buenos Aires?

At this particular moment, the question annoyed Fritz Mandl because it was only one of several flea bites which were making him uncomfortable. The old publicity over his divorce from Hedy LaMarr had come up again, and his original arrival with a female companion had antagonized many people. He was now married and had a child, but both the British and American colonies still ostracised him. Many refined Argentinian families, too, would have nothing to do with him and most of the best German families had become uncertain both as to his birth and his real relationship with Berlin.

To remedy this situation, Mandl turned from his dream for a moment. As his private secretary he hired a personable young man of excellent birth and social standing, Maximilian von Thurn, an Austrian nobleman with relatives in England. For some months the time of this young man was devoted almost entirely to an attempt at bettering the Mandl social position. The goal was membership for Fritz Mandl in the exclusive Jockey Club. Unfortunately, however, prejudice prevailed. At election time Mandl was blackballed. This rejection he promptly attributed to a campaign against him by the German Embassy. Von Thurn was fired.

In October 1942 there came another unhappy incident.

Eighteen months previously in New York, Mandl had done an unfortunate though seemingly minor thing. Using the New York office of a private banking firm of Buenos Aires, he had had sent over to a Brooklyn brewery \$100,000 in American currency. It was for "safekeeping," he explained—for some mysterious emergency.

There may have been nothing objectionable in this peculiar action. But in wartime the United States Government

does not like large sums in cash secretly stowed away by foreigners in other people's safes.

In June 1941, therefore, the brewery, obeying the Treasury regulations for reporting foreign funds, revealed the transaction. The money had been received, the report read, from a firm which, although Argentinian in name, was partly Swiss. Consequent inquiry by Foreign Funds Control soon brought out the fact that the \$100,000 was in fact money owned by Fritz Mandl.

Ordinarily, this might have been the end of the matter. But where the Argentine firm was concerned two unpleasant things then happened. First, the American Proclaimed List appeared, and on it was the name of a Swiss Nazi agent to whom the New York office of the Argentine firm had just paid nearly a million dollars. Almost simultaneously, investigation disclosed that the sale of a block of American Wine Company stock belonging to Von Ribbentrop's family-in-law had been handled by this same firm's New York office.

The New York manager easily explained both deals. His firm, he said, was Argentinian and its sole business was the handling of funds and securities in the Western Hemisphere. It had had Swiss clients, but principally it dealt only in the Americas. It was controlled by power of attorney—held by the Zurich banking firm of Johann Wehrli. This was its only European connection.

Literally, this statement was true.

What was also true, however, was something nearly every international banker knew, and something every foreign correspondent who had reported Fritz Mandl's lawsuit against the Nazis remembered. This was that the firm of Johann Wehrli was notorious for its ability to make deals with the Nazis. Not only had it handled large transactions with the German leaders, but among its own clients were Von Ribbentrop, the Henkels and the Bembergs. These latter, with headquarters in occupied France and with breweries scat-

tered all the way from Brooklyn to Brazil and Buenos Aires, were worth 80 million dollars alone.

The probability of Wehrli's Argentine branch also dealing with the enemy was only too obvious.

What, then, about Fritz Mandl and his \$100,000?

Such, less than a year before, had been the unhappy result of Fritz Mandl's merely asking a friend to safeguard some cash for him in America. The suspicions of Foreign Funds Control had been directed to him and all his affairs.

In Buenos Aires, Fritz Mandl attempted to dismiss the whole matter lightly. But the investigative resources of Foreign Funds Control made it one of the greatest international detective agencies in the world. Little escaped its agents. Nor did Fritz Mandl escape either.

On October 17, 1942 all his American resources and activities were blocked by order of the U. S. Treasury. Mandl's holding company, it soon appeared, could no longer purchase American goods. Here was real trouble for Fritz Mandl.

Oddly enough, had it not been for the man himself little publicity might have resulted from this initial action of the Washington authorities. When Foreign Funds Control blocked a foreigner's funds it usually preferred to say nothing and to wait for the foreigner himself to come forward with full explanations. But Fritz Mandl was not in a position where he could afford to indulge in any privacy.

His Buenos Aires bankers knew at once what had happened. His associates could not be kept in ignorance. Nor could an occurrence of such importance be kept from his military friends, who felt that Mandl's ability to get machinery and equipment from the United States was vital to the ambitious project in which they also were interested.

So Mandl talked to every influential American and Britisher who would listen. He loved the Allies, he insisted. Relying on the secrecy of his negotiations with the *Hermann*

Goering Werke, he proclaimed that he had never had any dealings with the Nazis. His only chance to regain his Austrian estates, he said, was by Allied victory. On what possible grounds could this mistaken action of Foreign Funds Control be based?

And he did more than talk. For many months Buenos Aires saw him a constant visitor at the American and British Embassies. Brief cases and associates accompanied him. But the American Government only tightened its hold.

Finally to his military friends he confided that he had always hated the Allies anyway. He would go it alone, he boasted. All further necessary drawings were on their way from Vienna and Berlin. All necessary machinery could be tooled by *Cometa*. The American embargo would be no more trouble in the future than it had been to other Argentinians in the past. No one could stop him.

This time, not far ahead, Fritz Mandl saw his goal.

Cometa, his bicycle factory, was now making \$4,000 a day. It could be changed over in twenty-four hours to making ammunition. Agreements had been made for Chilean copper and iron; millions of kilos of steel from Sweden were available; "know-how" experts were at his elbow to help him; five fabricating steel plants were already at work in Argentina; scrap iron was at hand in great quantities due to the embargo on its export for many years. Also, the statement that plans and drawings were on their way from Europe was no idle boast.

All he actually needed to start up again in the munitions business in a big way was a little more clever propaganda among his military friends to make sure of orders, and a chance to buy into Argentinian industry itself so that it could not be said that he was a foreigner out merely for personal profits.

Propaganda he found only too easy. Many of the military clique already half believed that Brazil, Argentina's huge

neighbor, coveted Argentina's rich Corrientes Province and the Territory of Misiones. Lend-Lease, they suspected, was merely a Yankee trick whereby Brazil, under cover of arming for a European war, could secure armaments for the conquest of the Argentine. Argentina had not followed the lead of the Yankees in the fight against Hitler. So now Argentina would be made to pay for her independence. The trouble would start the day the European war ended.

Such beliefs were fertile ground for Fritz Mandl to till. Loquacious, clever and insinuating, with a wide acquaintance among the military caste, he made the most of his opportunity.

With the revolution in June, 1943, came his real chance. On the success of the *coup d'état* he found himself on intimate terms with the pro-Nazi military rulers of a country hungry for armament at any cost.

Buenos Aires is one of the most magnificent cities in the world. Many of its citizens are highly nationalistic and independent in spirit, yet liberal enough to maintain one of the world's greatest liberal newspapers, *La Prensa*. But in terms of time and travel Buenos Aires is closer to Madrid, Paris and Berlin than to New York City. In culture, heritage and business relationships it is European, not American. Despite its large dealings with Britain and the British market for Argentinian beef, the British colony in the Argentine is scarcely a hundred thousand. The American colony, too, is small and transitory. Argentinians of German and Italian blood are many, but almost lost in the overwhelmingly Spanish population.

With strong Spanish ties, therefore, it was inevitable that such a country should from the beginning follow the lead of Franco and incline toward the Axis side. A "Good Neighbor" nation only by accident of geography, it was likewise inevitable that, under the new rule of a military clique, it should become a center of Nazi espionage and propaganda.

The argument was simple. Germany brought no economic pressure to bear on Argentina. The Allies, engaged in a blockade, did. Through the Allies, also, international trade was supervised, British navicerts required, blacklisted concerns subjected to banking pressure and embargoes on goods and materials. Herself by nature holding no brief against totalitarianism, Argentina did not like such attacks on her sovereignty.

By June 1943 Nazi agents were openly using the Ybarra Line to Spain to smuggle platinum, industrial diamonds, correspondence and information to Berlin. South American espionage found its headquarters in the German Embassy in Buenos Aires. Looted currency and securities from Europe found a central market there. Allied and Jewish organizations were shut up while German organizations operated freely. Allied utility companies were overrun with government inspectors while German companies were not molested. German industries ran without hindrance while such concerns as General Motors, Ford and Firestone were put under government supervision.

Even the Black Lists were freely disregarded, except in the shipping insurance field where British navicerts were found necessary. German firms openly ran bank accounts with large Argentinian banks. In small towns druggists put brightly lighted swastikas in their windows. Argentina was independent. She could be pro-Nazi if she liked. She was not under the Yankee heel.

"Arms for Argentina" was a popular slogan. . . .

Within a week after the June Revolution the new military rulers gave Fritz Mandl to understand that anybody who could deliver would be given a fat armament contract at once.

In October, Mandl surreptitiously bought into an old Argentine concern named *Impa*. Makers of airplanes, arms

and trucks, the firm was owned by the heirs of Roberto Licau. Included among its customers were many blacklisted concerns, and among its personnel were escaped Italian air pilots from the Italian *Lati* Line seized by the Brazilian Government.

Where Fritz Mandl was concerned, *Impa* had everything that *Cometa* lacked: machinery, materials, an old Argentinian name and above all an intimate relationship through its manager, Sueiro, with Argentina's military rulers. Together, *Impa* and *Cometa* were a first-class munition works.

By November the merger was complete. Fritz Mandl put 25,000 bicycles in storage, changed *Cometa* over to ammunition making, bought out those stockholders who complained, put in José Sueiro as President and took control for himself. Backed by the Mandl fortune, *Impa Armamentos* was ready to do business.

Early in 1944, the Argentine Government awarded *Impa Armamentos* its first contract: 56 million pesos for arms, ammunition, mines, trucks and field kitchens, with further contracts for airplanes and warships to follow. At last Mandl was on his way. He was back in the munitions business.

By June, in fact, the production facilities of *Impa Armamentos* had been trebled, plans of the Hirtenberger Works had been received, rolling mills were being bought in Brazil, technical processes, drawings and production know-how had been secured from the Manfred Weis Works, a *Hermann Goering* subsidiary in Budapest. Land had been purchased outside San Martín for a new brass and copper foundry, and a great new munitions combine was in course of construction in the proud land of the pampas.

Only one cloud hung on the horizon. This was the danger of being actually blacklisted. Naturally, the whole structure of his enterprises and interests was such that he was in a position both to siphon funds or information to Berlin, and to provide a channel for Nazi loot and hitherto concealed Nazi

capital to the New World. Owning German securities, dealing with the Germans themselves, with established connections with the *Hermann Goering Werke* and the Hirtenberger Works, it was inevitable that he would be blacklisted as soon as the whole truth had been discovered.

He knew, however, that such a blacklisting would appear to many Argentinians, not as an Allied move against a common enemy, but as an outrageous American attempt to sabotage Argentina's armament program—one more example of Allied coercion, with Mandl himself as the victim and martyr this time. Such a result, he felt, might make the Yankee Government hesitate, even if they did discover the facts about all his dealings.

Nevertheless, the possibility had its dangers as well as its popular advantages. Already the Argentine Government had been known to take over blacklisted concerns, if necessary to its program, on its canny theory that a government cannot itself be blacklisted by other nations short of war. Scarcely a week passed, also, that the rumour did not go around Buenos Aires that the Argentine Government was about to issue a decree forbidding foreign-born citizens to engage in the munitions business.

To offset this danger was only the fact that, even if the government did take over his factories, he himself would still remain as personal advisor to Colonel Perón, Vice-President of the Republic. As such he would still initiate policy, not only on Argentina's armament program, but on her fiscal and industrial policies as well. He had worked closely now for many months with the Argentine War Materials Commission, and kept in daily touch with General Savio, head of the Argentine Army arms factories. Government military sentinels guarded his plants. The Córdoba Government arms factory itself had been constructed from plans originally supplied by him when he had still been head of the Hirtenberger Works in Vienna. Even *Fabrica Borges*, the state munitions

factory, had gotten its machines from him back in 1927.

Surely such influence, if trouble came, would far outrank that of an ordinary munitions maker. Any difficulty would only be temporary for a man in such a powerful position.

If these were Fritz Mandl's thoughts in June 1944—and there is good evidence that they were—he was not far from prophesying the future with considerable precision. For in July 1944 the British and American Governments did black-list him as an open enemy. And with Hitler's fall the necessity for the Argentine to crawl back into the Good Neighbor group as a member of the San Francisco Conference and one of the United Nations finally led to his sacrifice on the altar of Pan-American unity.

In May 1945, the Argentine Government took over his factories and sent him into "retirement" as one step toward placating the United States Government. Since that time he has been out of the public eye.

So powerful is he still, however, that many alarmists insist that "retired" or not he is still actually a disciple of the Nazi way of life. They say that all his activities were part of an agreement dating back to 1938, whereby Argentina will eventually be taken over by its German friends once the confusion of the postwar period has died down.

Nazi agent or profiteer, in the government or out of it, Fritz Mandl will nevertheless probably remain for a long time in a position to carry out his dream. And he will stop at nothing to accomplish his purposes. Because of this fact he is a continuing and progressively increasing menace to the peace of all South America—a menace which sooner or later will have to be faced.

With his old friend, Perón, now President of the Republic, and with new plans for Argentine expansion already underway—beginning with a tunnel through the Andes to Chile who has promised West Coast ports in return—Mandl is not going to sit back and make bicycles.

Since he is now "officially retired" it is not easy to say just what can be done about it. Fritz Mandl understands fully all the practical steps which are necessary in order to realize a munition king's ambition. He knows precisely how to become a menace, stay a menace and make it pay. Behind him in Austria are decades of the intrigues, hatreds and suspicions of Central Europe, with their deadly flower of armament contracts. He views the nations of South America as merely another collection of Balkan states with the same armament possibilities on a larger scale.

He says: "The heads of all Latin-American countries owe their position directly or indirectly to the military. Military men like deeds, not words. In all my experience I have never known a Latin-American country to cancel an armament contract, no matter what the political changes."

Naturally, wars and threats of wars are the lifeblood of his business. So Bolivia, Chile, Peru, Paraguay are all on his first list of preferred prospects. For immediate business, he is cheerfully looking forward to trouble with Brazil.

Viewing such a career impersonally, one is reminded of the adage that every man carries within himself the seeds of his own destruction. Fritz Mandl never needed money. With his own eyes he saw decades of warmongering in Europe finally destroy his family inheritance and his own peaceful existence in the land of his birth. Yet the experience taught him nothing. In a far country, in a new world, he appears able only to repeat the pattern of death and prepare the way for his own destruction.

As an example of poison from Europe deliberately carried to the Western Hemisphere, he is certainly tops. His god is money, and war and death are his co-partners. Peace and democracy are unintelligible to him.

A study of Fritz Mandl's career goes a long way toward explaining to Americans the perennial problem which Argentina presents to the United States.

VIEWED IN retrospect and judging merely from the record, it seems incredible that during the entire war the men of Foreign Funds Control should have been content with the mere freezing of Argentina's two great banks and the blocking or blacklisting of the most flagrant enemy-owned concerns and cloaks in that country—directed by men like Fritz Mandl.

The truth is, the Treasury men were not so satisfied. It was no fault of theirs that rough treatment was not applied to Argentina immediately after Pearl Harbor. But in fighting their own war against the Axis in a purely realistic field, the men of Foreign Funds Control often found their best judgments set aside because of the urgencies of international policies dictated by others. They were often overruled by diplomatic necessities which appeared compelling to those men charged with the gravest responsibility for winning the war for the United States and her Allies.

This was unavoidable.

Over-all direction of economic warfare was naturally under the ultimate authority of the American State Department and the British Foreign Office. Combined Allied diplomacy wove the strait-jacket designed for the Axis. All high tactical moves, therefore, were mostly decided in London, where Americans sat with the British on the Strategy Board. There, in partnership, were taken the big decisions on such matters as general commodity purchases, proper quotas for neutrals, and preclusive buying of such vital products as Swedish ball bearings.

In Washington, the Foreign Economic Administration carried out these decisions for America and granted the

proper licenses. Under the wing of the FEA was the United States Commercial Corporation, which bought and sold products in neutral countries and collected neutral currencies with which to bid against the Germans. Cooperating with it were the Office of Strategic Services, the Army and Navy, the Departments of Justice and Commerce and such agencies as the Rubber Reserve Corporation.

The real reason, however, for London's holding primary leadership in plotting economic warfare was that the British Government, unlike our own, was not afflicted with scattered agencies nor handicapped by divided authority. From the beginning, Britain had the benefit of a War Cabinet, each member of which had sharply defined and innate authority. Subject only to the British Foreign Office, therefore, Lord Selborne was the Cabinet officer in sole charge of Britain's economic strategy.

In Washington, the opposite was uncomfortably true. The State Department controlled all government relationships with American missions in foreign lands. These men were responsible to Secretary Hull. The FEA was responsible to the President, while Foreign Funds Control, administering the Trading With the Enemy Act, reported to the Secretary of the Treasury, Henry Morgenthau. The Proclaimed List itself was handled by an Inter-Departmental Committee composed of representatives from each of these three agencies, including men from the Departments of Justice and Commerce as well as from the British Embassy.

Even in Washington, therefore, the ability of Foreign Funds Control to act directly in foreign lands was strictly limited. And such limitations were not confined to dealings with Argentina. Particularly in regard to Spain and Portugal, diplomatic considerations often overrode Foreign Funds' desire to hew strictly to its own peculiar line of attack.

In those lands, Treasury men had to guard against the

activities of many persons of incredibly diverse characters: intermediaries for enemy communication or trade between Africa and metropolitan France; dealers in black dollars; cloaks who tried to dump securities or dollar instruments in Lisbon or Madrid; representatives of Axis subsidiary firms or banks affiliated with German-occupied countries; individuals and concerns engaged in transmitting to the enemy American publications or war information; dummy Axis corporations who might be trying to substantiate ownership of looted properties in conquered lands; Axis agents trying to buy interned ships through Nazi cloaks; Swiss sellers of Nazi-seized gold.

Thousands of people such as these sought to combat the efforts of Foreign Funds Control. Added were many highly placed men in Spain, whose peculiar positions of influence made them almost the pampered darlings of Allied diplomacy.

Heading this list from the beginning was Juan March, top backer of Franco and monopolist of much of Spain's foreign trade. Early in 1942 the U. S. Treasury ran up against this man.

The incident was typical . . .

In a warehouse in New Jersey there was stored a large amount of tinplate, listed under a Spanish name as owner, which a Portuguese firm wanted to buy. To Foreign Funds Control came the Spaniard's request for the necessary permission to receive payment so that the metal could be shipped. The Portuguese wanted the tin, the Spaniard's agent claimed, in order to use it to can sardines to be sold in England. Was there any objection in Washington?

To Foreign Funds Control, the proposal seemed dubious. Tinplate in New Jersey was safe enough, but tinplate was badly needed by the Germans. What guarantee was there that, if released, this particular lot of metal would not be

transshipped to Germany instead of being used in Portugal to can sardines for the British? What evidence was there that the Spaniard who was to receive the money was not pro-Axis and willing to use his payment to buy goods for the Nazis in Spain or Portugal?

Both possibilities could be nullified by merely refusing to grant this license.

"Permission denied," ruled Foreign Funds Control.

So far this was straight, hard-hitting economic warfare—Treasury style.

No sooner, however, had the decision been delivered than pressure began to be applied from high quarters in Britain. The Portuguese firm, it appeared, must be considered reliable because Britain needed sardines badly. Also, the Spaniard in question was, it seemed, very close to General Franco and, if offended, could use his influence to persuade the Spanish Government to shut off its exports of iron ore to Britain—an action for which Germany was already pressing. The matter was of extreme importance to the British, since the fall of Norway had shut off Scandinavian iron ore, and some sixteen percent of Britain's ore was now coming from Spain. In fact, the whole question of how to handle Spain was under diplomatic discussion. The Spanish Government must not be annoyed.

"Permission granted," sighed Foreign Funds Control. Over-all political considerations still under debate in diplomatic cloakrooms, it realized, must again take first place.

What Treasury men had not known, of course, was that the Spaniard whose sensibilities were being so tenderly considered was no less a person than Juan March himself, the power behind the Fascist throne in Spain. From the outset of the war, Allied diplomats had been forced to treat this man with the utmost favouritism. The reason was and still is that Juan March—once pig smuggler and now Spain's richest profiteer—was and is the Franco Government's most

powerful supporter. Disowned even by Spanish Conservatives in private, he is bitterly hated and feared by the common people of Spain, and for very good reasons.

Worth perhaps half a billion dollars because of a civil war which he helped to start, and which cost the lives of half a million Spaniards—including his own mistress killed in Barcelona—Juan March, in fifty years of active life, has never publicly displayed any of the ordinary, endearing human traits of character. Cold and calculating, he has treated the land of his birth as an orange from which he must squeeze the last drop of juice. It is possible that, once upon a time, he may have looked the part created for him by romanticists—that of *The Last Pirate of the Mediterranean*. But seeing him today one finds it hard to believe that he was ever a carefree, sunburnt smuggler pulling a rowboat in the sunlit harbour of Palma.

Right now Spain's money boss is a suspicious, bald, turtle-headed, rubbery-lipped old man of over seventy. So slovenly are his habits that hotel servants dislike to wait upon him. His proudest boast is that he owns property all over the world. But he lacks even the dramatic imagination of a Hitler building his eyrie at Berchtesgaden, or of a Hearst raising his castle at San Simeon. "Except for Henry Ford," he claims, "I'm probably the richest man alive." Yet he has no splendid palace in Mallorca— island beloved of artists. He has no castle in Andalusia set in olive groves or vineyards. Instead, he lives tightly cooped up in hotel apartments and seldom goes out. When he does he is afraid of even small groups of people.

He measures all humanity in his own bushel.

Nevertheless, his political and financial power is undeniable. Added to his large original holdings—product of forty years of shrewd trading and illegal racketeering—he now owns a dozen Spanish banks and newspapers. Possessor of Spain's biggest shipping lines, he operates scores of ves-

sels plying between North Africa, Britain, the West Indies and the United States, Brazil and the Iberian peninsula. By government sanction, the great bulk of Spain's foreign trade is his. Possessed of the great Spanish Moroccan Tobacco Monopoly, no man in Spain smokes without paying him for the privilege.

He even carries large bank accounts outside Spain, in Lisbon, New York, London, Havana and Buenos Aires. This is a crime punishable by death for any ordinary Spaniard. But March considers himself above the law. In his view, the Franco Government exists merely so that he may use it.

During the war one of his favourite methods of acquiring more pesetas was to get *El Caudillo* to turn the heat on Allied-owned Spanish property so he himself could buy it up cheap. General Electric's Mallorcan subsidiary was one such business upon which he cast his eye. For four years prior to 1942 Franco's military so harassed this American-owned plant, and Fascist decrees and withheld supplies so hampered its production, that it finally became almost useless to its owners. Then a New York law firm, acting ostensibly for a Swiss bank, offered to buy the property.

Grimly, General Electric considered the paltry sum offered and asked who the real buyer was. The answer was: Juan March. For four long years the Spanish profiteer had had the government sabotage the plant so that he could have a chance to pick up a good bargain.

Strangely enough, it is not the size of the grab that attracts this Spanish tycoon either. He will take anything he can get. He especially likes deals where trickery is involved.

For example, while back home in Palma during the early days of the Nazi war on Europe, he heard of a poor Pennsylvania priest visiting relatives in Mallorca. The priest, it appeared, was in a difficulty created by the United States Government's war regulations. Paid by his American parish-

ioners to have masses said for the dead, he had intended to help out his hard-pressed brethren of the Spanish Church by transferring these stipends into their hands so that they could say the desired masses and have the badly needed money. But his inability to bring American dollars legally into Spain had defeated him in carrying out his charitable design.

Said March casually to his henchmen: "Tell the good father I'll pay for Spanish masses in Mallorca if he'll buy cigarettes for me in Kentucky."

Not until a surprised tobacco company in Louisville reported to Washington that a Pennsylvania priest was paying for millions of cigarettes destined for Spain did the unworldly father realize that he was being used to provide Spain's money lord with foreign exchange wherewith to buy illegally in America.

This passion for outwitting the law and for taking advantage of others is the hallmark of Juan March's career.

Christened Frederic March Ordinas in Mallorca, he was born poor. Reputed to be of Jewish parentage, he was brought up a Catholic, but was unable to read or write until he was twenty-one. As a boy he first made his living by smuggling, first pigs and then tobacco ashore from ships which put into Palma, the island's beautiful harbour.

When World War I came along, his ownership of a number of small boats, plus his boyhood knowledge of the unfrequented bays and inlets of Mallorca proved invaluable. In the Mediterranean many German U-boats needed gasoline. March sold it to them in out-of-the-way coves. In so doing he often picked up vital information about the U-boats. This information he sold to British secret agents for a good price. At the end of four years both sides had paid him so highly for his services that he was able to buy a whole string of real ships to replace his small boats.

With these ships directly after the Armistice he entered

the North African tobacco-smuggling business. It was his first chance at big money.

Most Spanish tobacco then was imported from North Africa and shipped directly to the Spanish State Monopoly Corporation. Smuggling, however, was profitable because the "*tabacaleros*"—Spain's special police—were poorly paid and inefficient. From the start, March took advantage of this in his own peculiar way: he paid the police regular salaries to let his vessels through. For many months, his captains openly brought French Moroccan tobacco to Palma while the bought officers looked the other way.

His next step, however, went far beyond the ordinary rascality of even Spanish smugglers. Approaching the *tabacaleros*, he inquired: if he paid still higher salaries would they not only continue to let his vessels through, but also seize the boats of his rivals? The answer was that in two years all his fellow smugglers had been liquidated and the entire tobacco-smuggling racket of Spain lay in his hands. He had informed on and double-crossed every tobacco runner he knew.

By 1923, according to the record, his personal abuse of the State Monopoly had become a scandal. Primo de Rivera, Premier, publicly announced that the State was "so plagued that the immorality of contraband must cease." But the government held no terrors for the island-bred buccaneer. "Smuggling will stop," he let De Rivera know, "only when the State buys all its tobacco from me."

In 1924 he had his way. De Rivera gave him the Spanish Moroccan Tobacco Monopoly outright.

To most gangsters sudden, dizzy success only makes more difficult a conventional life within the law. But March was both colder and shrewder than most. Discarding the associates and trappings of his trade, he at once forgot smuggling. From 1925 on, he bought Spanish lands and securities and went after political influence in the approved Spanish manner.

With one hand he endowed Catholic monasteries and bought impoverished estates in Mallorca to distribute at low prices to peasant voters. With the other he discreetly bribed the influential men whose support he needed. Elected a Deputy from Mallorca to Madrid, by 1932 he was a political power and already many times a millionaire.

Only one bad mistake appears to have marred his record for shrewdness. On the eve of Spain's overthrow of Alfonso and De Rivera, he refused to contribute to their opponents' campaign chest. It was a "bad business deal" he told the Republicans flatly. For this error, the new regime soon got him.

Charged with "tax evasion," he was thrown into prison—the *Alcalá de Henares* outside Madrid. In vain he got himself elected to Spain's constitutional tribunal, and then to the Cortes whose members are immune to arrest. The Republicans called his elections "secured by bribery" and he remained in jail.

Not until November 1933 did he escape. Then a Rolls-Royce awaited him at the doors of his prison one morning while a "fixed" warden politely bowed him out. The next afternoon the warden was arrested for taking a reputed bribe of a million pesetas. But his prisoner was registering at the Hotel Du Pont Royale in Paris. Safe to pull strings to recover his legal freedom in Spain, in 1934 March succeeded. The Cortes validated his election.

Back in Madrid, the ex-smuggler now faced a new world. But he was no longer a mere lanky Mallorcan peasant. He was a man of wealth and influence, an associate of royalty, as well as a bitter, implacable foe of the Republican Government.

Spurred on by revenge—the new regime had abrogated his beloved Tobacco Monopoly—he labored endlessly for months to bring together the Spanish Rightists. This done, he established intimate relations with the Army generals and at last definitely aligned himself with the Fascist plot

for an uprising. To Hitler, in return for German help, he and Franco promised the iron ore of the Basque country and the mercury of the Almadén Mines, then going to Britain. To Mussolini they promised Fascist support at the entrance to the Mediterranean.

Then, three days before the first military clash of the Revolution—the surprise capture of Seville with less than a hundred men—March himself sought safety in Paris.

Without doubt he was merely indulging in his passion for staying in the background while others did the dirty work. But this time he was not to escape direct responsibility. Apprised by Franco from Morocco that without instant outside help the revolt would fail—and he would be implicated—he agreed to fly to Rome at once and get help.

Introduced by Ciano to Mussolini, in five hours he had made the deal that carried Franco to victory: a loan of Italian transport planes immediately, with bombers and troops to come later. Within twenty-four hours the first transport planes were on their way to North Africa to fly Franco's troops from Morocco to Seville. Almost in their wake went the bombers, the crews dressed in Spanish uniforms, bearing orders to cover the crossing of the rest of Franco's army from Africa. The Spanish Civil War was on.

In this bitter conflict, March backed Franco to the limit. First he gave \$8,000,000 outright in cash to buy German weapons and planes and to help pay for the 110,000 Italian troops sent by Mussolini. Then in London, Paris and North Africa he guaranteed the hundreds of purchases which were necessary until Franco could get money from the sale of Spanish securities.

Legally, these securities were the property of the new Fascist Nationalist Party, but practically they were confiscated from Spaniards as Franco occupied more and more Republican territory. To get cash for the Fascist treasury, March's London firm had to sell them in Amsterdam, Ge-

neva and Buenos Aires. Meanwhile, he advanced to Franco all the money that was necessary.

Luckily for both men Franco was victorious.

More to the point, he was grateful. At one stroke in his hour of victory the new dictator restored to his banker all the lost March financial empire: most valuable of all, the Spanish Moroccan Tobacco Monopoly. In addition, he gave him a new and unheard-of favour: the monopoly of Spain's foreign trade for his ships.

Not in vain had the Moroccan legions fought and died.

"Franco can refuse me nothing," stated March in London in 1939. He was placing new orders in British shipyards for more ships. Top backer of Fascism, he was the power behind the throne.

Spain itself began to realize this presently as money and more money poured into the ex-smuggler's hands. While Spain tightened its belt, March acquired banks in Valencia, shipyards and drydocks in Cartagena, potash fields in Catalonia, industrial plants capable of supplying the Germans with everything from wire to machine guns.

Hitler was now on the march in Poland and the European war had begun. But this only meant still more riches for March. Ostensibly a neutral bystander, he could sell to both sides. Again he was in a position where he could work his favourite trick: playing both ends against the middle. Already selling badly needed goods at high prices to the Germans, and aware at all times of their military situation, he also had the British where he wanted them—eager for secret information and also badly in need of everything his ships could bring to Britain.

It was 1914 over again, multiplied a thousand times.

To clinch his standing with London, March let the British know that all his information was at their disposal. All his ships, he intimated, had sealed orders to seek British ports and serve the British if Spain should suddenly join the

Axis side. Meanwhile, to clinch his standing in Berlin, he entered into even larger contracts for German war orders and stressed his lively gratitude for past favours.

As a result, from 1940 on his fortune shot to the skies.

By 1941 he was powerful enough to override the American Government itself.

This came out first when the Portuguese firm asked for permission to buy the New Jersey tinplate owned by Spanish interests. The truth was, the tinplate was owned by Juan March. The Portuguese buyer was March's own agent in Lisbon. March was getting his own tinplate out of America for his own purposes. Nobody else could do it. But the British did not dare irritate the man who had bought Franco.

A similar happening occurred soon after the German declaration of war on the United States. This time a Spanish ship captain in New York, José Alberti Palmer, was caught breaking the U. S. war regulations by secretly loading his ship with armoured electric cable, manila rope, several hundred drums of lubricating oil and 40 radio transmitter tubes—all destined for Germany—but marked merely "ship's stores" on the vessel's manifest.

Even while this irregular shipment was being investigated, a truck drove up to the dock with additional unlisted cargo to the tune of \$20,000 more. Naturally the captain was arrested and the ship, the *Isla de Tenerife*, detained.

But the ship's captain, it appeared, was not wholly responsible. One José Mayorga, a New Yorker, was identified as the man who had actually given the instructions.

Who was Mayorga?

A little sleuthing soon disclosed that he was a British subject of Spanish descent. His father was a reputable London banker. But young Mayorga was doing more than simply acting as someone's purchasing agent in New York. He was secretly receiving mysterious cash payments brought to him from Spain by unidentified seamen or stewards. These

smuggled alien funds he was then using freely in defiance of Foreign Funds Regulations.

To the Treasury, it appeared that big game might be afoot. Investigation of the Lisbon agent to whom the ship's cargo was consigned confirmed this suspicion. This man was a bank officer in Lisbon and held diplomatic rank as an honorary consul of Panama. But he also was, and had been for many years, private secretary to the owner of the *Isla de Tenerife*: Juan March. His father-in-law, powerful in the Falange, had loaned Franco his Madrid house as a storehouse for Fascist funds. On the side, by virtue of his diplomatic status, this Lisbon agent was using the supposedly inviolate diplomatic pouches to Havana and Mexico City to smuggle to the Western Hemisphere large amounts of American dollars, presumably of German origin. This money was being used in Latin America to finance the Falange, or to buy tobacco illegally for the Spanish Moroccan Tobacco Monopoly.

Obviously, Juan March was dealing with the enemy and sending cloaked funds to the Western Hemisphere whenever he wished.

"Crack down," advised the U. S. investigators. "Blacklist Juan March and all his agents."

But, again, it was not to be.

In due time, without fanfare or publicity, March's goods were released. The *Isla de Tenerife* was speeded back to Spain. The "ship's stores" were declared forfeit and legal fines totalling a few thousand dollars were assessed against Mayorga, the ship's master and the ship itself—fines which the Spanish steamship line paid. But the rest of the unsavoury mess was dropped like a hot potato. The currency smuggling was not mentioned. Nor did March's name appear in the Proclaimed List. Even though he was obviously peddling German-seized dollars through Lisbon, the British could not afford to have their "Great Friend" blacklisted.

As for young Mayorga, well, Mayorga, Sr. was March's banker in London.

Scores of such proofs now show how privileged was March's position with the Allies during the war with Germany. Said one of his agents in America smugly, explaining why he was permitted to ship a hundred tons of valuable Mexican sisal to March under British navicert: "This authority, granted by the British Economic Warfare Ministry, is only given when the ultimate consignee is known and considered friendly to British interests."

Yet in that same year March was reported to have purchased Santo Domingo's whole year's crop of tobacco at a price far higher than any other bidder was willing to go—clear indication of his possession of millions in Nazi-looted American currency bought at a fraction of its value from Berlin.

In support of this probability is the fact that in June 1942 it was March's ship, the *Iciar*, which was actually caught redhanded with its \$300,000 loot in this very same captain's possession. Detained in a Santo Domingo harbor, you will remember, the money was seized through Allied pressure, but the British let the ship go free to get its cargo and return fully loaded to Spain. No wonder March is still reported to be complacently repeating his favourite saying: "God is omnipotent, but Money is His deputy."

Where the Germans were concerned, it is a fact that March in his six years of dealings with the commodity-starved Nazis made one of the biggest killings in history. Where the Allies are concerned, he has done even better. The net result is that of all the men who helped to loose on the world the whirlwind of death and destruction by war, Juan March has emerged as the only big cash winner.

When last heard from, his pockets bulging with gold and his hands still grasping for more, March was in London. But he hadn't gone there to enjoy a quiet old age. He had

gone there merely the better, once more, to safeguard his huge fortune and make sure that Spain remained safe for his special privileges. He didn't want to be caught again, as he was in 1932 when Alfonso was overthrown, with his political pants down. So he was backing a Spanish monarchy with one hand, while with the other he still supported Franco. As insiders know, he was not at all opposed to Juan de Bourbon's manifesto from Switzerland to Dictator Franco, calling on that wily general to yield to a Royalist government before revolution comes and it is too late.

The reason, of course, is that ever since Hitler's fall Juan March has been getting worried about Franco's power to keep on delivering the goods. Meanwhile, London—like Paris—is a good place in which to stay out of the spotlight. He has always preferred to remain in the background—and now more than ever. For back home—in Madrid, Barcelona, Seville—March has nearly ceased to exist as a human being in the minds of the people of Spain. He has become a symbol of greed and power—a symbol which serves as a rallying cry to all the socially and politically discontented. "Which do you choose," thunder the Spanish radicals, "Marx or March?"

It is good ammunition in Franco's unhappy country.

CHAPTER 18 : *Concerning the French Line—and the Free French*

ANOTHER case of crossed diplomatic and Treasury wires arose in 1942—one over which Foreign Funds Control and our State Department found themselves in fundamental disagreement.

This was the argument over the handling of the French Line in New York City, and the status of its New York director, Henri Morin de Linclays. Not even yet has the State Department given the real reasons which impelled it to disagree so flatly with the Treasury.

After the fall of France in 1940, Foreign Funds Control held the purse strings of the French Line in New York through its control of the Line's New York bank account of nearly a million dollars. Consequently, the Division had the power to permit or refuse the release of payrolls. The steamships themselves, however, were still operated under Treasury license by their original French management. Even as late as November 1942, when the invasion of North Africa took place, the ships had not yet been turned over to the United Nations, as had many others.

This was due to the attitude of Director Henri de Linclays, a pro-Vichy official who insisted that the headquarters of the steamship company was not in occupied Paris and therefore under German control, but in Marseilles under Vichy control. This fact, since there was no proof available that it was not true, precluded the seizure and operation of the Line by the Alien Property Custodian.

Just previous to our North African landing, however, certain investigations made by Foreign Funds Control convinced the Treasury that not only was the headquarters of

the French Line still in Paris, but that the Line itself, under De Linclays' direction, was not above acting as a blind for German interests in occupied France.

A number of incidents had contributed to this conviction.

To begin with, when the French Line's ships were not turned over to the Free French after Dunkirk as the ships of other lines were, hundreds of French sailors and many officers employed by the Line went over to De Gaulle. Promptly, De Linclays cabled the names of these men to the Vichy Admiralty, naming them all "deserters" and requesting that relief payments to their families in France be stopped immediately.

Many of these sailors and officers were from Brittany, then held by the Germans, so De Linclays' information went directly to the Nazis—putting the families of these French patriots at the mercy of the Gestapo.

Another damning fact was that immediately after the fall of France the Line's Vichy management had supplied to the Germans, on orders issued by the Franco-German Armistice Commission in Wiesbaden, copies of manifests of all ships going to unoccupied France. Berlin thus had available a complete check on all ships' cargoes dispatched from the United States.

Further revelations made clear to the Treasury that shipments from America to German-occupied France, and vice versa, had been made by the French Line via Martinique.

This was first discovered as the result of a tip to the New York Customs House. Certain oil-well drilling machinery, badly needed by the Germans, said the informant, was being loaded in New York listed as bound for Martinique when in reality it was bound for occupied France under orders from Vichy. Aside from the illuminating fact that there are no oil wells in Martinique, to sign a manifest giving a false destination was a crime. Yet the declaration had been signed by no less a personage than an official of the Vichy Embassy

in Washington—obviously with the knowledge of the French Line.

As a result of the tip, this particular shipment was halted in time and the machinery never left New York. But the duplicity of the French Line and its collaboration with the Germans under orders from Vichy was undeniable.

Because of these discoveries and many more of a similar nature—including the circulation by the Line in New York of a pro-Nazi Vichy pamphlet, and several attempts by De Linclays to send back to France and so to prison a number of anti-Vichy French Line executives and employees—the Treasury reported officially:

If the French Line is to be reorganized and conscripted into the service of the United Nations, it is of primary importance that M. Morin de Linclays' relationship with the organization be severed. Both by his writings and by his actions, he has made it clear that he is politically untrustworthy.

Immediately after the North African invasion, nevertheless, the State Department proceeded to disregard all these proven facts and, incredibly enough, put under De Linclays' direction and management all French ships taken over by the armies in North Africa, as well as management of the French Line itself. In vain the Treasury protested.

A new American corporation, subsidiary to the French Line, was set up. De Linclays was put at its head, and the new company was financed by capital released from the French Line's frozen funds. No longer under Foreign Funds' control, De Linclays had absolute authority. Naturally this gave him the opportunity to complete his previously attempted purges of anti-Vichy executives and employees—a thing which he promptly did.

As a result, all the investigative work of Foreign Funds Control and its subsequent advice to the State Department went for nothing. And what was gained?

Well, so far as appears from the record, all the State De-

partment got from its myopia was De Linclays' support of the State Department's quondam candidate as head of the French Government in North Africa: General Giraud. Later, Giraud repaid the compliment by suggesting, during his brief tenure of power, that twenty-nine French ships in North African ports be placed under De Linclays' new line. But Giraud then disappeared from the political picture as a candidate to head the Free French.

In justice to the State Department, perhaps it should be said here that nearly all the dealings of the United States with France were at that time rendered almost impossible by the world-wide division of all Frenchmen into Vichyites, Free French and the helpless residents of occupied France. Perhaps no over-all diplomatic decisions could possibly have encompassed a clean-cut, definite policy which would not have aroused antagonism at some point.

Nowhere did this problem appear more clearly than in the North African invasion and the difficulties the Treasury itself encountered there.

In North Africa, by order of the President, the Division was made responsible for all controls—property, financial and economic—which should become necessary in areas rewon and liberated by the American armies. This naturally included, as in the United States itself, ferreting out collaborationists, cutting off all sources of payments to Axis agents who had gone underground, freezing cloaked Axis funds, and stopping all trading with the enemy.

In America this had been difficult enough. It was doubly so in a strange land where Frenchman worked against Frenchman, where the final fortunes of war were still undecided, where all business and banking were still headquartered in Vichy or in Paris under German control, and where the German Army as it retired did its utmost to confuse and wreck the economic fabric of the country it was surrendering.

For instance, one of the favourite devices of the Germans as they were driven out of Tunisia and Algeria was to loot the banks of all North African currency, seize the cash and currency of all Jewish residents, and then make payment to their troops and purchase quartermaster supplies in paper Bank of France notes, printed in limitless quantities on the presses still in Nazi possession in Paris. Before Tunisia fell, North Africa was flooded with this German-manufactured money. In addition, there had previously been a typically German and consequently systematic looting of all the essential goods of the country so there was very little left for liberating armies to buy with any kind of currency.

All this in itself would have presented an economic problem difficult enough for men from overseas to handle. But it was immensely complicated by the unhappy fact that Frenchmen were now opposing Frenchmen. North Africa was French territory, not American. Foreign Funds Control thus found itself forced to persuade Frenchmen themselves to issue strict official decrees, which when carried out against Vichyites could spell death for other Frenchmen.

Luckily, the German looting of North Africa followed a familiar pattern. With countless Bank of France notes in their possession and with control over all the French banks, the Nazis had enjoyed almost boundless credit balances, swelled continuously by transfers from Paris. Also, they had received endless local levies, taxes and payments for occupation costs imposed at will on the conquered. Under this system they had always had plenty of money.

Meanwhile, they had followed two principal methods of economic conquest. First, strict control of "frozen" wages; and, second, strict control of "frozen" prices. By German decree, no wage earner's income could rise substantially. By German decree, no retailer could raise his prices. All black-market purchases made by ordinary citizens were severely punished.

As a result, only collaborationists and Germans had been able to buy in the black markets which arose. Both did. So all essential goods above bare living necessities went to the Nazis and their friends, who bought freely with limitless cash, and the country was soon swept bare. Everything moveable went into the maws of the Nazis and their collaborationist allies. Jews who wished to eat had to mortgage their homes, give up their radios and cars and sell their jewelry. Levies then took from them any cash they had received from such sales.

This was highly unfortunate for many residents of North Africa. But when Foreign Funds Control finally took over, the situation appeared in a different light. Because of the action of the Nazis, nowhere in Tunisia and Algeria had the average non-collaborationist accumulated any substantial amounts of currency or any other property during the German occupation. On the other hand, people who had dealt with the enemy, or who had taken advantage of others by selling to the black market, had made huge windfall profits. Such people, as a result, had substantially increased assets, particularly in the form of currency holdings or bank balances.

This made Allied action unexpectedly easy. Advised by Foreign Funds Control experts, the French North African officials immediately put into effect what was called the Tunisian Tax Plan.

By its terms, all fortunes which had risen more than 50,000 francs—roughly \$1000—during the occupation by Germany lost half of their excess to the tax collector, and the remainder was frozen until it could be determined whether the source of the total increase had been legitimate. If not legitimate, this remainder too was seized and the owner put under suspicion. Since the Tax Plan applied to real property also, few collaborationists escaped and the job of apprehend-

ing Axis agents and Nazi sympathizers was distinctly lightened.

Meanwhile, of course, the American Army had to be paid, in a land where all American dollar bills already afloat were "black dollars" and as such not acceptable legally by North African banks, business houses or storekeepers. This problem, though, had already been solved in advance in Washington. Army pay clerks had been issued special American bills to be paid to North African troops; bills stamped with a yellow seal instead of the customary blue seal now the hallmark abroad of the outlawed black dollars, and worth only fifty cents. For a time confusion reigned as overjoyed GI's found foolish Arabs and natives willing to sell at fifty cents apiece ordinary "blue seal" American dollars. But an official explanation dampened the pleasant outlook, so that thereafter amateur profiteers found themselves out of luck.

Not so easily solved, either, was the problem of setting in motion safe arrangements for international payments which would allow the export of materials useful to the Allies in their over-all war effort, and the import of supplies needed by both civilians and the new Army of the Free French. Payments for such goods had to flow through North African banks which had until then been dealing with Paris and Vichy; which were obviously still under Axis and Vichy influence, and were swollen with hidden Nazi and collaborationist funds. Before all the funds in such banks could be freed to the use of the Allies, the banks themselves had to be completely purged, or Axis-owned money would be made good along with the rest.

Unfortunately, these banks, too, were run by Frenchmen; and a Frenchman might be Free French, a Vichyite, vulnerable because his family still lived in occupied France, or an outright Nazi agent. Few Frenchmen wished to in-

form on other Frenchmen, in the original uncertain state of affairs, and there were many ways of keeping secret the origin of money and securities as well as the real sympathies of the bank officials themselves. This was also true of their French correspondents in New York where payments would be received.

Yet, obviously, if all North African funds were simply released without question no one knew where they would end up.

For Foreign Funds Control, the solution of this problem meant that every bank in North Africa, and every correspondent house in New York which these banks proposed to use as agent, had to be investigated before anything at all could be done about freeing currency and international payments. Months were required to make the complete investigation. But it paid good dividends. For many a questionable character was brought to light in this manner, and all kinds of schemes too numerous to outline were uncovered.

One bank in Morocco—to take just one example—proposed as its New York agent a man who, it was found, had already acted as agent in America for two blacklisted banks. Investigation showed that he had participated in a scheme whereby Italian money in New York had been transferred to an Argentine bank and from there into the hands of Italian interests. In addition, the agent himself was interested in a blacklisted firm and had visited Paris in 1941, with the permission of the German authorities, to promote the interests of munition plants in occupied France.

In investigating North African banks themselves, the going was even harder for the men of the Division. In some cases information only to be had in South America and London had to be gathered and pooled before a complete picture could be gotten of North African institutions which, even after the Germans had been driven back to Italy, still controlled vast industries for them behind our lines.

One such bank, it was found, had played a completely sordid role in arranging widespread collaboration with the Germans. Nearly all its partners had been prominent figures in the Vichy Government. One associate had played a leading part in the surrender of French Indo-China to the Japanese. Another was manager of a Franco-German iron and steel cartel, had delivered control of the French chemical industry over to I. G. Farben, and had toured North Africa itself in the interests of the Nazis.

Naturally, such a bank had to be completely reorganized, no matter what the underlying difficulties. Nor was this all. Even when such institutions had been thoroughly investigated and purged there remained the necessity of thwarting hidden collaborationists who might try to make good money they had gotten as a reward for services to the Axis. Well in advance of the landing of the Allied Expeditionary Force, billions of such tainted francs had been sent over to North African banks by Nazi collaborationists in Paris, Marseilles and Bordeaux. If these francs could now be used in New York, through newly opened channels, all such ill-gotten gains would be validated in every country of the United Nations.

To prevent this, Foreign Funds Control, before granting permissions, was forced to study every proposal involving money that emanated from North Africa. And many of the proposals were ingenious in the extreme. Probably the most ambitious was that known as the proposed North African Bond Issue.

Set forth as a patriotic French proposal by certain authorities in North Africa, it purported to afford French residents of the United States a chance to subscribe to bonds, the proceeds of which would be used to help arm and supply the new Army of the Free French. Investigation disclosed, however, that a leading North African collaborationist bank was planning to take up the entire issue as soon as

offered, in francs held in North Africa by various collaborationist clients. The plot thereupon became transparent. Dozens of former Axis agents were planning to turn their suspicious French francs into American dollar bonds, whereupon every tainted sou subscribed would become a sacred obligation, payable in good dollars, binding upon the future government of free France.

Needless to say, this generous offer was turned down, as were many others like it. In fact, an entire book could be filled with the stories of the various efforts made by the Axis collaborationists to evade the strict controls which Foreign Funds Control laid down in North Africa, and which it enforced until it eventually lifted the total embargo originally ordered by it against North African funds. Literally hundreds of exotic proposals were made to the Division—few were accepted.

Always in the minds of the men of the Treasury, perhaps, was the fact that even well after the completion of our invasion of the Mediterranean, a bank in Morocco had succeeded in spiriting to Spain some \$700,000 in gold which was promptly turned over to the Germans there for some badly needed war purchases. Collaborationists in the Moroccan bank had deliberately communicated illegally with Paris, arranged the exact details of their plot; whereupon the gold was brazenly put aboard a plane and flown swiftly to Madrid. The perpetrators of this plot were arrested and \$700,000 of the Moroccan bank's funds in New York impounded, but the damage had been done.

At the present writing, the whole problem of frozen French funds is practically solved. But many difficulties have been encountered.

For example, as a result of their North African experience the men of Foreign Funds Control investigated one French bank in New York and found it to be an out-and-out collaborationist institution. It had been reorganized in 1932

through the cooperation and assistance of Pierre Laval, then Prime Minister of France, who had arranged for a contribution of French Government funds to the bank. Its manager since 1935 had been a leading advocate of active and friendly cooperation with the Germans, and had openly hobnobbed with Germany's leading industrialists until Pearl Harbor made this inadvisable.

Other French institutions, too, during the war years transferred funds illegally to questionable Swiss banks, either under secret pressure or from a genuinely enthusiastic desire to aid the Nazis.

The last of such difficult cases can only be finally decided when the new French Government has opened up all its sources of information in France, and honest ownership of all French banking institutions and funds has been finally proven.

Meanwhile, liberation of all the occupied countries, particularly Italy, brought many such festering economic problems to a head. Most of them required over-all treatment before Foreign Funds Control could finally lift its controls.

TODAY THE war work of Foreign Funds Control is over. Millions of common people stand in Europe looking at the destruction of their lives' work, no longer interested in which side won. They ask just two despairing questions: "Who will pay me for my part of this stupendous loss? Will I ever get back any of my precious things that are gone?"

To these questions the bitter answer must be that, with negligible exceptions, no one whose precious possessions were looted by the Germans will ever recover them again. Only a small possibility exists that any substantial amount of the immense loss caused by the fighting itself will ever be paid back.

To American industrialist, French peasant, Russian moujik, Dutch merchant, London banker, Polish farmer or Tunisian Jew, the answer is the same. Allied Control Commissions may continue to direct German industry, disperse it or divide it. Reparations Commissions may wrangle over who will get what. To the average man and woman in America, Britain or Europe, the result will be negligible.

The reason is, the loss is too enormous.

Before the war began, for instance, 100,000 Americans owned 13 billion dollars' worth of property abroad. The bulk of it was in Western Europe. It ranged from such large industrial investments as General Motors' Opel Works in Germany—with 26,000 workers—to small chateaux and schools in Italy and France. It included yachts in the Mediterranean, cows in Greece, Madame du Barry's famous bed, factories, stores and farms, and many millions in household furnishings, paintings, jewels, cash and securities, farm

equipment and retail merchandise—all the trappings of civilization.

What now?

Sadly the American owner of a once-beautiful Brussels house lists his woes: "All the glass chandeliers are gone, the radios, Chinese vases, rugs, tableware, bathroom fixtures, bedding, linens, vacuum cleaner, washing machine. Nothing is left but the staircase. I hear the caretaker married a German and departed."

Another American deposes: "All my life savings, \$120,000, went into my school outside Rome. German soldiers took everything, including the furniture—three truckloads. The rooms are bare. Even the walls of the big villa are smashed by artillery fire, the roofs are shattered. The caretaker has been dead since 1943. Rain is ruining what is left."

Says General Motors of its big German plant: "The Opel Works are gone—ruined. What's the use of going back to Germany anyhow, even if we would consider it—which we don't?"

Reports another American, owner of a farm in southern France: "Well, the house remains. But they took all my horses, cows, mules, tractors and trucks. Only my two silver chests, hidden in Paris, escaped."

Says the Westinghouse Company: "We've only one French plant now. The Pous Works were destroyed completely. Incidentally, the Nazis left too hastily to remember to pay for the services and material they used while they were running the plants."

Multiply these few samples by twenty thousand and you have a picture of American property losses in Europe. State Department officers went in three days after Eisenhower's troops, and set up consulates to deal with the situation. Now thousands of cases are on record. There will be thousands more. All show the unbelievable destruction of war.

Some people, of course, have been lucky; others unlucky.

For instance, even the books and pictures were plundered from Maxine Elliott's villa at Cannes, where one of Winston Churchill's personal paintings of his home in Kent was reputed to hang. But the Carnegie Foundation's building in Paris went untouched. The furniture warehouse where the household goods of the American staff were stored was never opened—possibly because in 1940 American Embassy notices had been affixed to such property and later, when we got into the war, were renewed by the indefatigable Swiss.

Again, one American woman has reported recovering her Paris apartment with all the furnishings intact, *plus* a beautiful grand piano. The place had been occupied by a German general and his mistress, who paid rent regularly. Yet another Paris resident listed her country house as put to the torch and the faithful French retainers taken to a concentration camp for defending the property.

According to American records, only one type of personal robbery was constant—where the owner was a Jew.

As late as June 1942, the Gestapo invited the caretakers of a Bordeaux estate owned by an American of Jewish ancestry to furnish proof within ten days that the owner of the valuable paintings and furniture was an Aryan—lacking which the goods would be seized. In this case, the contents of the chateau were spirited away at night by the French caretakers before the Gestapo came back. But usually such salvage was impossible. As a rule, the Gestapo merely sent paintings to a dealer to be put up for sale, and stole or auctioned off the furniture. Invariably all Jewish-owned private property was confiscated.

Incidentally, much of the money from all art sales, deposited in the Paris branch of the Deutsche Gesellschaft, was left behind by the Germans in their hurried flight from Patton's tanks. The total was large because whenever good paintings were put up for sale, agents or collectors for the

high-ranking Nazis put in an appearance. Hitler wanted third-rate Viennese paintings, reminiscent of his youth perhaps. Von Ribbentrop liked modern French art. Goering wanted nudes of any school, German or Dutch preferred—particularly Rubens. Only an occasional masterpiece went as a gift to a Gestapo agent in exchange for a passport visa or identification papers.

As a result of the peculiar character of art works, here was one exception in the general disaster. Famous paintings are unmistakable. Like the Michelangelo sculpture stolen from Bruges—its home since the Italian Renaissance genius modelled it—they can be traced. Many have been found, notably those stacked away in the German salt mine where the gold of the Reichsbank was also hidden, and outside Vicenza, Italy, where 10 million dollars' worth of art treasures were hidden in a church by the retreating Germans. The official position of the American Government is that all such treasures will be returned to their owners once an Allied Art Commission has had a chance to consider the booty.

If so, these owners may consider themselves fortunate and well rewarded for their faith in fine art. Others with more mundane possessions will never see them again.

As for the great bulk of looted American property, the bitter fact is that practically nothing can be recovered. That sofa is destroyed, that car ditched, that silver set melted down. Only where property damage occurred in enemy countries is there any hope of restoring shell-smashed roofs and walls. In Italy, Germany, Rumania, Bulgaria, Austria and Hungary, Allied Control Commissions have been more or less in a position to demand repair of damaged property—or else.

But in the liberated countries, our Allies, local sovereignty has been restored and all Americans are on a par with the local inhabitants; unable to get restoration and required to

stand all losses cheerfully. They are even worse off, because as foreigners they do not come under the requirements of those who may receive a very limited war indemnity.

Such a situation may rouse varied emotions, all the way from the bitter complaint of the woman whose refuge for her old age is gone to the careless shrug of the man who lost a yacht in Cannes and now finds it wrecked in the seized Italian Navy. But all alike are victims of the war and their own mistaken belief in the security of a foreign land. Not much can be done for them.

If this, taken altogether, is the record of American property losses in Europe—admittedly a drop in the bucket—consider now what happened to the Europeans themselves.

Said Assistant Secretary of War McCloy, returning from Europe on the eve of the German surrender: "It is impossible to exaggerate the destruction of the industrial organization of Europe." Said Clare Luce, after a Congressional inspection of the damage: "Europe is a shambles."

As late as 1946, weeds still covered a quarter of the farms; some farms were not even planted. Said our own Department of Agriculture long before Hoover's tour of the world: "There are millions of people who subsist on as little as three-fourths, two-thirds or even half their prewar calories." The reason was that tractors, tools, farm animals and man power were gone. Years will pass, for instance, before the Russian livestock industry can recover.

In France, the French Government reported that "a million men must labor for seven years to restore the destruction" caused by artillery fire, bombs, mines and demolitions. In Poland, the story was even worse. In the Netherlands, in addition to war destruction in cities like Rotterdam and Nijmegen, a fourth of Holland was inundated by North Sea water let in by the Nazis. In Russia, two million homes are gone forever in the general holocaust. And all this was merely war destruction.

Now comes the loot taken by the Nazis from their neighbors.

In terms of sheer swag, Hitler's conquest of Europe ranks first in all the historic robberies of mankind. Compared with it, all the plunderers of the past look like mere pocketbook snatchers—Napoleon, Cortes, Pizarro, Alexander, Darius, Attila, even Ghengis Khan laying waste Chinese and Persian cities so that the horses of his horde could have grass.

For five years, every country in Europe was forced to give its very lifeblood to the New Order. Except for Switzerland, Sweden, Spain and Portugal, every European land handed over its billions of commodities or manufactured products. As time went on, every occupied country was forced to dispose of its most valuable possessions to the Germans—from paintings to toys. In return, the inhabitants clutched to their breasts billions in paper money—either "occupation marks" or local paper notes printed for the occasion on state bank presses in the conqueror's possession.

As to industry during these long years, every occupied country saw its factories incorporated into the Nazi swindle, with actual control held in Berlin and bookkeeping "credits" marked down there as payment for the total industrial output delivered to the Germans.

Meanwhile, everywhere, wages and prices were strictly held down as in Tunisia, while the Nazis themselves personally bought in Europe's black markets with unlimited paper money, thus adding to the over-all booty seized. "Get the goods!" was the slogan. In Holland and Belgium, as we have seen, entire diamond stocks were seized.

To complete the picture, at home 10 million foreign slaves labored on the farms and in the war factories of the Reich, fed starvation wages, while their German masters lived well and divided the possessions of 3 million Jews liquidated and murdered from Tripoli to Oslo.

Merely to sketch the broad outlines of so grand a theft

is to suggest that any estimate of the loot taken in would require some sort of astronomical figures—without counting the cost of the military campaigns required to smash the gangsters or the property damage visited on the unfortunate victims by the contending armies.

Yet the ledger can be brought down to earth.

The Danish Government, for instance, knows the exact amount of the swag extracted from their small land: a billion and a half, exclusive of destroyed and expropriated private enterprises.

The canny French know even better what was done to them. The French Government has listed every piece of machinery taken away, every locomotive, ton of coal, business truck or car. To this list they add the labour of 3 million French slaves in Germany, and all the bookkeeping "credits" due from Berlin to French concerns put under German direction. Finally, as a sort of touchstone for "legally" looted possessions and "bought" merchandise, comes the total amount of French paper money printed by the Nazis on the Bank of France presses in Paris and given in so-called exchange for so-called purchases. This alone totals 500 billion francs: 10 billion dollars.

The total French bill to date, not even counting war destruction and illegal robberies, amounts to far over 60 billion dollars.

Experts apply rough calculations of the same sort to occupied Poland and Czechoslovakia, invaded Russia, the Balkans, Rumania, the Low Countries and Norway. They tote up the war destruction and then add the war debt of all the United Nations, including 185 billions of our own. The result is more than *one thousand billion dollars*.

What has Germany left to offer in payment of such a staggering bill?

The answer is—in terms of goods or loot—nothing.

The extorted food is eaten, the clothes worn out, the com-

modities converted, the diamonds dispersed, the stolen cows are sainted grandmothers, the commandeered industrial products have been shot into the air or lie in charred wreckage along the roads of Germany. Germany herself is ruined. Except for art treasures and gold, she has consumed her loot. Like a scorpion, she has stung herself to death.

Hitler did make good his final boast: that if he fell, he would bring Europe down in ruins on top of him.

According to the Potsdam Declaration, all Germany was to be treated as one unit by its conquerors until a satisfactory German government could be set up. Meanwhile, by mutual agreement, Americans, British, Russians and French were each to administer their separate zones under identical controls from Berlin.

Instead, the inevitable has happened. From the outset of occupation, Germany has been treated, not as a unit, but as four conquered countries—five, if you include Poland's German territory.

In the political field—until the recent Anglo-Saxon amalgamation—the British set up their zone after the English model, a central capital like London. In our zone, we followed the American plan of state governments, each state with its own capital. The Russians ruled with commissars subject to remote control. The French simply installed military rule.

Beneath these varieties of administration lay the deep cleavage in the definition of "democracy" as defined by Russians and Anglo-Saxons. To the Soviets democratic freedom of thought and action meant giving freedom solely to leftists. All others were "enemies of the people." Only in securing reparations, in getting rid of Nazi officials and in trying war criminals was there real political agreement among the Big Three.

In the economic field similar disastrous differences arose. Naturally war plants were destroyed, armament was taken

from the Germans, the Russian claims were satisfied, Germany's war-making ability was reduced to zero. The amount of heavy industry Germany may retain was fixed—a number of times!—and ersatz war tools, like synthetic rubber and gasoline, were banned.

But where German economic life itself was concerned—and its effect on Europe—the disaster became complete.

The Russians, when they came in, decided at once what German factories were obviously war industries, shut these down and then announced everything else could operate.

The Americans, however, followed a totally different procedure. They shut down everything in sight and then slowly picked out those industries which they thought could be safely reopened. The result was tragic. Even when a "safe" factory was allowed to reopen, it usually found itself tied up tight, either by a still unlifted ban on another plant on which it depended for part of its product, or by its inability to deal with the rest of quartered Germany.

A food-processing factory, for example, might be unable to get going until it put a roof over its head—which meant shingle plates from a banned war plant. A maker of boots might get a license to reopen, only to realize that his coal came from the Ruhr (under British control), his leather came from eastern Germany (under the Russians), his customers were mainly under the French, while his machinery needed repairs from a shutdown plant in his own zone.

Or take a banking example: soon after the fall of Berlin the Russians announced that all-German banks in their zone were insolvent. Reason: all bank deposits in Germany—above a stated amount—had been automatically put into German war bonds and these, the Russians decided, were now worthless. To fill the gap the Russians opened new municipal banks. What did the Americans do? In our zone all German banks were reopened at once in an effort to get things going, and the question of what the Germans might

want to do about their own bonds was left to the future.

Such diverse actions did not make for national recovery in a conquered and divided country which owed its citizens over 30 billion dollars—at the present rate of exchange—and was flooded with paper money.

In practice, from beginning to end, the Russians have acted one way, the Americans another. Sometimes the British have followed Russian practice, sometimes American. In the Russian zone today things are beginning to hum—for Russia! Russia is supplying some raw materials and taking fifty percent of the products made. But in the American zone outside trade is forbidden and applications to go into business are still required even if you want to sell a few pairs of shoes. AMG is still overwhelmed with paper work, even though its local headquarters have now been withdrawn from all towns except the capitals of the three *Lands*—States—under our control: Bavaria, Württemberg and Hesse.

There is no incentive for farmers or small village folk to take their food or produce to town. All they can get in exchange is dubious paper money and they already have stacks of that. Other commodities are almost nonexistent.

The unpleasant truth is that for Germans everywhere the Allied Occupation has merely underlined Hitler's boast. In our zone some 4,000 industrial plants are now going again. Half of these make consumers' goods. But their output is still less than 29 percent of capacity.

All over Germany lack of uniformity and lack of transportation hold up normal business life. The output of coal has reached only 5 million tons per quarter—40 percent of usual production. Of this a fourth goes as reparations to the countries of Western Europe which Germany ruined.

How do the Germans live under such conditions?

Says General McNarney: "The continued absence of public unrest doubtless results, at least in part, from the ability

of the authorities to maintain basic food rations at an adequate minimum level."

In other words, because of the failure of Allied policy, American and British taxpayers are helping to feed the Germans through Army appropriations while Western Europe starves at the hands of an inadequate UNRRA. The bitterest wisecrack in Western Europe today is: "Oh, to be occupied by the Americans!"

In no sense, remember, is this failure to be laid at the door of the American Army. From the day the American Army entered Germany its record was little short of magnificent.

Faced with unprecedented destruction, American soldiers cleared German streets, put electric, gas and water services in order, built temporary bridges. Amid a hostile population, hindered by hundreds of thousands of surrendering German soldiers, up against starvation in the towns and streams of refugees, displaced persons and Allied prisoners of war on the roads, American soldiers got order out of chaos. Everything was done according to Hoyle. Buildings were requisitioned by military fiat and the landlords given slips of paper to the *bürgermeister* directing that the city pay the landlord his rent.

Faced with a situation suggestive of Dante's *Inferno*, one of the greatest conquering armies of all time acted as if it were repairing San Francisco after the fire. Every American outfit considered its pride bound up in fixing things up. Jobs done varied from operating railway repair shops and getting streetcars running to opening German beer gardens where *mein* host could be commandeered to serve beer to GIs while orchestras of displaced persons played cheerful music. Around the city of Frankfurt, the great *Autobahn* had been only half completed by the Nazis. The Americans promptly went to work and completely encircled Frankfurt with a fine new motor highway.

As soon as the American Army touched civilian life, it

acted as if it had suddenly become a Red Cross disaster relief crew. Only in military disarmament was it tough.

The job of military government, however, was to carry out the decisions made at Yalta and reaffirmed at Potsdam: deNazification, education in democracy, and industrial rehabilitation. Experienced, fresh from Italy, the first MG men worked with a will. In each city hall, an American officer held in his hand a book—prepared in Washington. It contained not only all the necessary facts about the town—for American engineers—but a preliminary list of the leading local Nazis.

These men when found were arrested at once. When not, they were blacklisted against any and all employment except specified day-laborer jobs.

Then the famous *Fragenbogen* was brought into play. To every important male German was handed a questionnaire to be filled out. As detailed as a Treasury income-tax blank, the *Fragenbogen* stressed party affiliations, jobs, service, belief and record—political as well as business.

Every leading German in town was thus questioned under penalty of punishment for perjury. The answers were checked and cross-checked. Less than one percent could prove definite anti-Nazi beliefs or records. Ninety-nine out of 100 were sullen, hostile or greasily friendly. So *Bürgermeisters* were picked from the best individuals of the one percent and under them were installed police chiefs, fire and sanitation heads and all the bureaus that go with a well-run German city.

Mistakes might be made but quick organization was vital. Meanwhile, no new regulations were introduced into German cities. Instead, rationing was continued under German rules; banks were allowed to open—although tellers often worked in basement rooms beneath the ruins; German money was kept in use.

Except for the repeal of laws directed against Jews,

gypsies and foreigners, new German officials began running their own half-destroyed towns as before. Except for the sudden blooming of hidden black markets—due to the arrival of American cigarettes, watches and chocolate bars—nothing new happened.

The only difference—and it was a large one—was that all factories were closed, all industrial life came to a standstill. No one had a job; except in the almost untouched country no one could eat; in town no one could even reopen for business without a license.

In this situation, often amid rubble and ruin, United States education officers began the attempt to root out Nazi schoolbooks, install German books of pre-Nazi vintage, and find schoolteachers, while German newspapers and public meetings were forbidden. In this environment, MG men began the destruction of Germany's war potential and the attempt to reopen the rest of German industry under anti-Nazis. In this chaos the experiment of showing the Germans the splendors of democracy was undertaken.

Inevitably the now-familiar stalemate developed. MG officers themselves differed over what should be done. In scores of cases efficient Germans who had given lip service to the Nazis were arrested or deprived of jobs and power, and in their places were put stupid or cowardly ones. Sometimes, as in scientific industrial work, no one could be found to take the places of men who had worked for the Nazis. In that event the work went undone, the scientists stayed in jail. In other cases, in factories and in the schools, genuine supporters of the Nazis pulled the wool over the eyes of ingenuous MG men and made good their plea that they should be allowed to remain.

Gradually, however, it became clear that all distinctions between Nazis and anti-Nazis—granted that such extremists were still alive—was a distinction that had stopped at the borders of the Reich. The vast majority of the Germans

—even some of those who had been in concentration camps—had been and still were our enemies. The one percent poll held good. Football fields could not replace Hitler for Nazi youth. K-rations could not take the place of a job glorifying the *Herrenvolk*. Hatred of the conqueror was the one real bond among all four zones of Germany.

Soon, also, it became obvious that Nazi-taught history itself could not be killed off in a day—in schools, universities or in adults. The few liberal Germans who had hitherto been silent and now stood forth with their country's conquerors as builders of a new political order were immediately considered Benedict Arnolds. Old political hatreds began to be repaid and new ones created. Naziism, now underground, was still willing to destroy Germany if that meant revenge on the conquerors. American officers were murdered.

At this point the original Army of Occupation began to go home while new American soldiers came—young soldiers, not the experienced GIs of Africa, Normandy and the Ardennes. These boys walked two by two at night. Man for man, each GI was a source of popularity, particularly with the willing *Fräuleins*. But where there were large occupation garrisons whole towns were split wide open on Saturday nights by a kind of American Halloween.

Inevitably incidents occurred and tension mounted. Veterans of the *Wehrmacht* produced knives—and soon came another roundup of all Germans, a check for Nazis, a search for weapons; another crack had appeared in the relations between the occupation forces and their charges.

Today the Germans are disarmed all right—both by reparations and the destruction of their war potential—but the industrial problem drags wearily on, the educational program is at a standstill, and the political problem grows insoluble.

Local elections were recently held in our zone, but only on local issues. In practice they meant: if the Christian

Democrats won and you were a Christian Democrat and one of the faithful, then you got first chance at a remodeled house. But by no stretch of the imagination can such elections be considered as a step forward in any national political life which will produce a responsible, central German government after the Yalta model.

Except from a revolutionary standpoint, German national political thinking is nonexistent because no German attempt to get Germany going again can be made. Genuine German industrial recovery is stopped dead because Germans are not allowed to trade with each other everywhere. Divided control and stupid basic policy have made success in either field almost impossible.

Meanwhile, the pre-Yalta bogey that underlay Anglo-Saxon insistence on teaching democracy is dead. Communism in Germany has proved so feeble that the Russians are now welcoming into the fold all and sundry, including former Nazis. The device used is a merger of the Communist and Socialist parties. To help this good work along the Russians are prepared to wait and hold the Germans in a vise as long as necessary. Not only have they reopened trade between their zone and Russia—ahead of the Western powers—but their military officials are bringing in their families, picking out permanent homes and preparing to dig in for many years. Capitalistic, democratic success in Western Europe is not on Stalin's agenda.

Our own MG men, of course, feel differently—both the men who originally worked so hard in Germany and those who have now replaced them. One by one these men are beginning to admit that all consideration of the German problem must include a recognition of the fact that what has so far defeated them is not the Germans nor their own admitted mistakes. It is the Allied policy under which they must work—a policy which will defeat any set of Americans, no matter how good, who take their places. Backing

their conclusions are the reports of visitor after visitor to Germany. Even those who still want to see the Germans get religion and democracy unite in agreeing that no success will ever be possible until economic stability is restored. It will not be of the slightest use to turn our zone over to Frenchmen or Czechs if they in turn are forced to work under the mistaken policy and divided control now in force.

Only a new, realistic policy and a single control can get us and our Western Allies out of the mess.

On this new realistic policy, luckily, there seems to be general agreement—at least between the British and ourselves. First, in the opinion of Anglo-Saxon observers, we should immediately abandon the Four Power Occupation of Germany with its attempted political conversion of the Germans, and substitute for it a reunited Germany and a single Allied general manager in Berlin to carry out a single, unified internal economic plan of recovery.

Second, to back up this single economic control, we should gradually withdraw all four-zone occupation forces and substitute a single Allied control from without, with periodic inspections, supported by a mobile international military force.

Third, once this is accomplished, we should draw up an import-export plan for Germany which will shut off from her the raw materials of war and still allow the Germans to live.

Finally, we should tear down the present Chinese Wall around the Germans and seek a European agreement which would readmit a securely hobbled Germany to a European economic life where her nonmilitary products are badly needed and her market for food and raw materials is a necessity. The vital need for this last step is well understood by all Europeans. They know that German tariffs built the Ruhr after Bismarck had secured the iron of Lorraine by the Franco-Prussian War. They know that European cartels in

steel and other basic commodities kept Germany in her highly profitable position while political deals stood the rest of Europe on its heels. They know that German big business kept Yugoslavia from using her natural water power to convert her copper deposits, Rumania from being more than a source of raw petroleum, Greece from using low water shipping rates to set up a steel industry of her own, even though she had neither coal nor iron.

Germany lived upon these countries by selling them manufactured goods and taking their raw materials. The great cartels kept them as markets, not competitors. Not since the days when Frederick the Great needed iron for his cannon has the European setup been a purely economic one such as would obtain under a United States of Europe.

For this reason, the German problem today is basically part and parcel of the general problem of Europe's ability to make a living by taking in its own washing, while it buys abroad such things as bananas or coffee or articles others can make cheaper.

Naturally there are difficulties in the way of such a European agreement underwritten by America. French fixation on internationalizing the Ruhr and Russian lack of interest in a strong Western Europe are two of these. The question of which European nation gets what will bedevil whatever group of experts tries to solve the problem. Suggestions that the United Nations settle the matter are already in the air.

Nevertheless, loans from the United States are needed by the nations most interested. And we want a peaceful, capitalistic Western Europe which includes a Germany which cannot attack the world. So a trade might be had.

In fact, it is to our advantage to make one. For not until the proper basis is laid for all Europe's economic progress can we perfect a working control of Germany from without which will allow us to withdraw our 300,000 troops from

Germany and at the same time effectively hobble the Germans.

As war experts of the Treasury and the late FEA point out, much of Germany's chance of making successful war depends on her ability to pile up in advance war supplies of things she does not have. Under Hitler, Germany used her buying power abroad for five years to pile up in the Reich such war supplies. Hobbling the Germans permanently will emphatically require control of her imports of all such supplies and raw materials. A basic economic agreement is a prerequisite of such a control.

To make such a control doubly effective, right now, five additional safeguards are also suggested. One: prohibit German purchase of foreign assets. Two: prevent German sales abroad that can be used to finance German personnel and propaganda in foreign countries. Three: prevent German membership in cartels. Four: prevent German technical research in other countries.

The fifth safeguard is the most important of all: confiscation of all now-hidden German assets abroad. In Spain, when the war ended, production of chemicals, drugs and electrical goods was largely in German hands. Germans had large holdings in Portuguese wolfram mines and Argentine electrical supply and construction companies. Between 1938 and 1944, German patents registered in Sweden alone jumped from 1,600 to nearly 4,000. Germans abroad salted money away by letting money owed them stand for payment. One Spanish concern alone now holds \$300,000 on account for a German house in license fees. Added are the still-unrecovered German assets in Switzerland and Turkey.

In Switzerland this is particularly serious despite Swiss insistence that they will do the job. Switzerland was *par excellence* the best cloak for Nazi assets throughout the war. Running through every form of business agreement and hidden

ownership of currency and securities, all these assets must be ferreted out, seized as German reparations, and German ability to help finance a war from the outside destroyed.

When all this is done, any future attack by Germany on the world will be impossible. Shorn of the industries which can arm and supply a German war machine, periodically inspected from without to prevent the making of everything from airplanes to atomic bombs, and securely hobbled by an import-export control which shuts off the raw materials of war but still allows the Germans to prosper, Germany would cease to be a potential threat to the rest of Europe.

Only one problem will remain: how can we plan so that the world shall never again find itself at the mercy of new international swindlers, robbers and rogues?

SAID Somerset Maugham in his book: *Ashenden; or The British Agent*:

"Man finds it easier to give up his life than learn the multiplication table."

No shrewder comment could be made on the present economic state of the world, and the problem it poses to the makers of a new and peaceful society of nations. Certainly, to the reader who has read this far the question must inevitably occur: in a world where Humpty Dumpty has been so completely and disastrously pushed off the wall, can all the king's horses and all the king's men ever put him together again?

Specifically, where the United States is concerned, is the arrival of total peace merely to call for the abandonment of the fight against black dollars and Axis loot, against concealed Axis funds in Spain, Switzerland and Argentina, against German cloaked cartels, patents and monopolies? Is the mailed fist of the Proclaimed List simply to be unclenched, the embargo against enemy payments dropped? Are the sequestered billions of foreign funds in the United States to be progressively released without any *quid pro quo*?

Is all this to be done in the interests of going back to a peaceful prewar world?

The answer is, of course, that there isn't any such prewar world to go back to. The prewar world from 1933 on was not a peaceful world. It was a world covertly at war with itself; each nation against every other, each striving to raise the standard of living of its own citizens by every means possible—tariffs, taxes, devaluated currencies, barter, patents, monopolies, cartels, wholesale dumping.

International trade instead of being like the ebb and flow of a tide was more like a river, dammed in a hundred places with the water diverted to every conceivable use of each community before the excess could flow on. Communities which were deprived of sufficient water to keep going at the rate to which they were accustomed became desperate, adopted every conceivable expedient to get more water, or tried to become self-sufficient with what they had. If finally unsuccessful, they became belligerent, seized arms and fought for what they considered their rightful share.

Obvious as it is that the German will to war is a historically national trait easily played upon, and clear as it is that after 1936 Hitler was intent on war as the only way to secure his own ends, it is nevertheless also obvious that an economic maladjustment, creating a fear of national poverty, lay beneath Hitler's ability to arouse the German people to fight the world.

Said Hitler in 1933, when eight million Germans were out of work: "The sale of German commodities abroad nourishes many million Germans. We must export or die!"

Under Hitler or anyone else, Germany had to have foreign trade to survive.

In that same year Britain was living as always almost wholly on foreign trade. Even America, striving for all she could get, torpedoed the efforts of the London Economic Conference of 1933 to stabilize international exchange, and then following Britain's necessity went off the gold standard and devaluated her dollar so that it could better compete with cheaper foreign currencies in overseas trade.

All over a depression-haunted world in 1933 the battle was for foreign trade to ensure higher standards of living at home, even if attained at the expense of other nations, a slogan easily exploited by politicians—whose promises led them into positions from which eventually they could not retreat. Everywhere the river of international trade was

constricted by nationalistic dams and pools, as well as drained by the artificial canals of international cartels and monopolies. In the case of Japan, the Japanese attack on America arose directly out of thwarted nationalistic greed. This was the specific meaning of the "Co-Prosperity Sphere of Greater East Asia."

Since such forces were operating on a world-wide scale, economic weapons had to be found to make them effective. In Germany these weapons took the initial form of barter agreements and manipulated currency used as a multiple engine of price cutting. But the fact is that by 1939 every important exchange market in the world, except our own, was on a government-controlled basis. Every other important country was protecting its own standard of living by a complicated economic mechanism of its own.

Heading this new economic faith was Germany. Said a leading German magazine of the day:

Two camps are now established; one under the leadership of the United States, the other under the leadership of Germany.

In the United States, the traditional principles of economic liberalism are in the foreground—at least theoretically—holding that the world is one unique large market in which each people shall offer what it is able to produce cheaper than the others. This system is conditioned by a free and unlimited system of payments.

In the German group, a number of national economies tries to draw conclusions from the bad experiences of the past and establish something new.

This "something new" was the Totalitarian State with complete political direction of all trade weapons for nationalistic ends.

In 1933, when Hitler seized power, Germany was literally "broke." A world close to bankruptcy itself was unable to buy German goods and Germans had no money with which to buy abroad. Germany by herself was not industrially self-sufficient, so her very standard of living was at stake. For-

eign exchange was based on gold and out of the world's billions Germany held less than 1/250th. Unable to buy goods abroad and faced with a shortage of goods at home, it looked as if inflation were due again.

Hitler's problem, therefore, was twofold. First, how to gain time in which to seek new German markets abroad. Second, how to buy and sell in such markets without actual gold, and without credit to borrow long-term money abroad for the financing of large imports.

Barter was the logical answer.

To gain time, first, a moratorium was called on foreign loans—both private and governmental. All private accounts due to German business houses were declared payable directly to the German Government itself. In addition, control of imports and exports was put into Government hands. This averted immediate disaster. Then Dr. Schacht, former Brooklyn salesman and at that time head of the Reichsbank, was called in for the barter job.

Under the ordinary American way of doing business, if a jobber wished to buy, say cotton, from you, all you wanted to know was: could he pay for it? Under Dr. Schacht's scheme, however, private credit was no longer involved. The arrangement Dr. Schacht proposed was to be made with your government. If your government could find a number of importers who would take, say German steel, Dr. Schacht would then take all your cotton, because nobody would have to pay directly. Your government would pay you in your country's cash for your cotton, and Dr. Schacht's government would pay his German steelmakers in German currency. Later, the governments could settle with each other in a sort of periodic clearing house.

Put baldly, this was the scheme worked out by the ingenious Dr. Schacht for the use of the Nazi Party. Under it, all purchases by Germans in a country entering into the barter plan went through that government's central bank, and

vice versa. Individuals did not pay each other. The end of each transaction was simply another bookkeeping entry. Once a year or so "clearances" were to be made, when it would be determined how much each government owed to the other.

At this time came the pay-off.

If on clearance day Germany owed your particular country—and Germany was piling up materials so that this would usually be the case—the first doubt Germany cast on the barter system was to question the exact value of the goods you had "sold" her. Her second move was to say: "Well, why argue? Why not take the debt out in more steel? After all, you are buying some British and American steel, and Germany is, you know, taking *all* your cotton."

If you agreed, presto!—Germany had secured an exclusive German market for steel in your country, a market backed by public opinion, supported by the interests of many businessmen and carefully propagandized by the Nazi Economic Ministry.

As an answer to the City of London and the exporters of the United States, it was a scheme that was a humdinger. The more a trapped country bought from the Nazis, the more it had to buy or lose the "money" already owed to it. The bigger the debt Germany owed such a country, the more that country was bound up with Nazi successes. In the Balkans, in South America and in Europe, country after country fell for Dr. Schacht's enticing scheme.

To meet this brand-new form of competition, Britain devaluated the pound, which doubled the value of all foreign currency in England and elsewhere if used to buy British goods. America then devaluated her dollar.

But Hitler countered with the growing Nazi military machine, and a blunt warning to Europe: "Trade with Germany or fight! Join the New Order or have your country expropriated!"

Since a satellite creditor got at least some kind of goods, while those who quarreled about the barter system got military invasion, occupation marks and wholesale looting, the Schacht Method had all the earmarks of success. Certainly it put to shame mere bank loans, cheap currency, national traveling salesmen and honest goods. At last Hitler had gotten Europe into a position where it only existed to help keep up the German standard of living.

Looked back upon in the light of current events—Russia, to be specific—the plan makes one feel sober. Here was a typical gangsters' solution to the international problem of making a living—a solution conceived in trickery, carried out by force of arms, and ending in wholesale murder. Precisely the same brutal philosophy lay behind the Japanese attempt to exploit China and then seize the Far East.

Nevertheless, long before America entered the war this was the situation. By 1933 all over the world economic mechanism was already being pitted against economic mechanism. The war itself, when it struck, merely sharpened the natural antagonism between these giant machines so that their nature became clear to all. It was economic warfare—to the death.

Once this fact is firmly grasped, it becomes obvious that even where present-day Germany is concerned, the Nazis have been only militarily defeated and the German people only physically disarmed. But, given another eighteenth-century peace treaty with another depression in its wake, and, basically, nothing will have been changed in Germany's original economic plight. Nor will anything have been altered in Britain's basic necessities. Nor in America's. At worst, Russia may even step into Germany's shoes as the economic warlord of most of Europe.

As a result of a World Security League, therefore, military weapons may be laid down, countries may be liberated, national frontiers redrawn, military spheres of influence de-

limited—and Germany and Japan rendered impotent to wreck further violence on other nations. But world peace itself will not have arrived until an international economic solution has been found which will eliminate the necessity for any further use of economic weapons by nations against their neighbors. For military wars, we know now, follow in the wake of some earlier economic battle silently started long before.

It is this form of disarmament which must be achieved if mere military disarmament is not to be a mockery. Without such an economic solution, our artilleries may have ceased firing, but the real fight among mechanisms will be going on. Economic machine will again oppose economic machine. The world will still remain secretly at war.

This is the basic reason why neither loans to Britain and France nor the plans evolved at Bretton Woods and Washington as part of the framework of the world's Security League go far enough.

Out of those initial agreements so far have come suggestions on how currencies can be used to help the fair exchange of goods, instead of as economic weapons. Out of them have come provisos for temporary borrowing of foreign exchange by any nation in trouble, so that its current economic difficulties may be ironed out and the afflicted country can again join the international game. Included are plans for long-term loans to distressed or backward nations through an international bank. In the offing are suggestions for a progressive lowering of tariffs the world around, so that men can freely buy and sell of each other and not be forced to forge aggressive, nationalistic weapons to get a decent share of the world's goods.

Where the United States is concerned, the goal of all these plans is the lasting peace inherent in what the makers of America's foreign policy have called a "liberal free-trade world." For this reason, all the initial plans themselves are

based on good will, honest dealings and a decent respect for the rights of others. All call for government administration of a framework within which free, private enterprise can work.

But where is the world-wide admission that war is an outgrowth of cutthroat economic policies? That a loan to Britain is only a temporary stopgap? That the Economic Advisory Council of the new Security League is the most important body in its complicated structure?

Take South America. . . .

From the very beginning of World War II, American economic warfare experts who dealt with the unseen war south of the Rio Grande were clearheaded about what they were doing. Throughout the war, their aim was to destroy all Nazi influence in Latin America by strangling German trade, and by persuading each Latin-American country to seize all Axis spearhead concerns and nationalize them, thus ending each one's power to perpetuate the methods of the Axis.

This was the clear war aim of the United States. Always present, however, was the eventual problem posed by the future. Would the final outcome of the war find a liberal, free-trade world? Or a continuation of the economic nationalism and undercover business warfare of the past twenty years? If the latter, Germany as a world power must never be permitted to come back.

Prudence, naturally, dictated an anticipation of the worst. By and large, therefore, the American policy has been to exterminate—root, stem and branch—all Axis economic interests in the Western Hemisphere. The theory has been that any return of German firms to their owners after the war would constitute the return to them of a potential weapon for new economic warfare.

This policy, though planned for mutual protection, has brought mixed results.

Thanks to the Good Neighbor plan, all the Latin-American countries—always excepting Argentina—joined us in the economic war on the Axis. But only Mexico and Brazil really followed our lead in actually expropriating enemy concerns. The other Latin-American countries were content merely to control such companies until the war was over—when their previous owners would get them back.

This means that in most of South America the United States' primary effort—the German-Italian total expulsion program—has really bogged down midway. Actually, in every country south of the Rio Grande the struggle for commercial supremacy has already begun again. Foremost among the prizes sought are the ex-German concerns which once served this rich market with German products. And foremost among the bidders are the Germans themselves, reaching out from their sanctuary in the Argentine.

In Brazil and Mexico, this newly threatened German invasion presents no cause for immediate alarm. These governments have expropriated all Axis concerns blacklisted by Foreign Funds Control.

In Brazil, for instance, Brazil's most successful newspaper and radio magnate, Dr. Francisco Chateaubriand, recently proposed to buy from the Brazilian Government one of the leading, blacklisted ex-German spearhead companies: A. C. Schering, drugs. Chateaubriand was distinctly pro-Ally. His newspapers carried full-page editorials after Dunkirk, urging Brazilians not to be disheartened. Nevertheless, among the questions asked him by the Brazilian Government were: Is it your own money? Are you planning to resell your purchase to the Germans? Are you considering giving the executive jobs back to Axis keymen? Is it a bona fide purchase for purely business reasons? Are you buying any other ex-German concerns? What are you going to do with the trademarks?

Not until these questions had been satisfactorily answered

did Brazil allow Chateaubriand to complete his purchase, and request Foreign Funds Control to delete A. C. Schering from the Proclaimed List and restore the company to banking and trading privileges under its new owner.

This was really effective action. Except in Brazil and Mexico, however, no such positive governmental cooperation has been noticeable in Latin America.

In Ecuador, for example, formerly energetic under Dr. Alfonso Tous, the surrender of Italy produced an almost complete cessation of action against Axis concerns. In Chile, always afflicted with chronic indifference to economic warfare, no steps whatsoever have been taken to prevent the return of the Germans. Where Venezuelan Axis firms are concerned, Venezuela simply stalls. In Bolivia, any sale of controlled Axis property has been merely to Fascist friends, or to outright Nazis from the Argentine. Colombia has never taken any rigorous steps to effect either the nationalization or liquidation of enemy concerns. In Bogotá, capital city of that nation, the list of names on the American Black List is so long that the pro-Axis individuals and firms so listed have actually been doing a thriving business among themselves.

At the same time, the High Command of the big German companies which once dominated Latin America still sits in Buenos Aires awaiting a chance to recover its empire, just as their predecessors in the United States awaited their chance in 1920 in the dye and chemical field and, through bribery and perjury, got all their concerns back before 1927.

This industrial High Command is well-heeled already, as we have seen. But it is also being reinforced almost daily by other Nazi industrialists who during the war kept large assets concealed in Sweden, Switzerland and Spain, and have by now cautiously transferred them to Argentina, along with their families. "Go south, young man!" was an admonition

which spread rapidly through Germany's industrial world during Hitler's final months.

At the present moment, German concerns now domiciled in the Argentine are bidding for steel construction work throughout Latin America. Names formerly well known in Berlin, Frankfurt and Duesseldorf have long since begun to appear on hotel registers in such cities as Buenos Aires. And to complicate matters, concerns which might properly be blacklisted are being bought up by the Argentine Government on the theory that the government itself is in no danger of being so treated.

Obviously then, the Germans are planning to recapture the South American market from their base in the Argentine. Germany's great industrialists have no intention of ending their days in an enfeebled postwar Reich. Nor will Allied controls over German industry stop them. Nor any regulations of German monopolies and cartels hamper them. For their new cartels will be Argentinian, Chilean, Latin American.

What's to be done about this situation in a brave new world which believes in other nations' good intentions, and fondly hopes international free trade is at last about to arrive?

The plain fact is, since Pearl Harbor we have made no new friends south of the Rio Grande—and we have made a good many enemies. Much of Latin America still likes the Germans, and the Germans—thanks to Argentina—are well supplied with cash with which to win the others. Latin America lacks capital and the Germans in Argentina have it. If they recapture South America economically, and in the coming years grow to prosper again in Europe, will they give mere lip service to a free-trade world and, when ready, once more try "something new"?

Add to your consideration of this one particular "eco-

nomic boil" still remaining to be lanced, the other unlanced boils in our new interlocking world, and you will find many other cases for international surgery. There are grave problems to be solved, and economic peace cannot be manufactured overnight out of whole cloth.

For example, the ability to borrow foreign exchange at crucial moments may afford a temporary means of averting currency wars. International loans from an international bank may enable a nation, behind industrially, to catch up with the procession without selling itself into slavery to some new Hitler. But so long as world trade is not free trade, and nationalistic barriers breed economic mechanisms, just so long will monopolies still arise and tariffs be framed to protect national standards of living, and wars ignite.

Wherefore, at last emerges the real nigger-in-the-woodpile of international economic peace: *tariffs*, test of America's proclaimed faith in a liberal, free-trade world as the eventual peacetime goal for which American men have given up their lives on the fields of battle. In this one question of tariffs, in fact, may lie the answer to whether capitalism shall in the future lead to healthy world trade, peace and civilized living standards, or merely back to new spheres of commercial influence, new restricted trade agreements, new economic warfare, and then on to new bloody battle fronts and final world destruction—the same well-worn path which led to World Wars I and II.

For Americans particularly, this is a crucial question. Because, while America herself is vitally involved, up to now Congress has not fully established any far-reaching, basic policy so complete in itself and so understandable to the common man that it can enlist the enthusiasm and support of all of us as a truly American approach to the goal of international economic cooperation.

Possibly such a policy has not been formulated because of that touchy political subject, America's own tariff, which

is inevitably involved. It is quite probable that a domestic invasion of Washington by new pressure groups will have to be met before a united practical front can be presented to the world.

Nevertheless, such a definite economic policy must be worked out by America and presented to the world; not only by our State Department in its latest proposal for reciprocity treaties with 18 nations but by the new Republican majority in Congress.

On the other side of the world, Russia—digging in for perhaps twenty years of domestic reconstruction and getting all the reparations she can—has occupied the defensive zones she wants in Europe, and is doing her best to make the world half slave and half free.

But in America—despite Secretary Byrnes' efforts abroad—our own basic economic interests in the international field are not clearly understood, nor is there any agreement upon them by our two political parties.

Instead, too many Americans have adopted a broadly humanitarian approach to the problem, which has merely served to cloud its deadly reality. Out of this hazy American policy have come only general statements to the effect that it is the United States' desire to help distressed and backward peoples everywhere, and to raise their scale of living to the ultimate benefit of the world as a whole, as well as to the benefit of the United States as a great trading nation.

Considered from the point of view of strict political economy, such vague statements are neither candid nor intelligent, nor are they likely to achieve practical results.

Commenting on our present economic trend, the *London Times* has this to say:

American planners, official and unofficial, are eagerly preparing measures to promote a rapidly expanding flow of goods and services from the United States all over the world. But there

are few if any signs of pre-occupation with measures to provide facilities and opportunities for a corresponding influx of goods into the United States.

Yet the refinements of multi-lateral trading should not be allowed to obscure the essential character of trade as an act of barter. As modern experience shows, nothing is more certain to lead to ultimate chaos and calamity on a worldwide scale than a policy which seeks to inflate exports without applying an equal stimulus to imports.

For "calamity" substitute the word "war"—and you have it.

In other words, unless America herself soon puts the ball into play with intelligent and up-to-date international tariff proposals as part of a whole new structure of political economy, the new front opened by the men of Foreign Funds Control back in 1940 may become a permanent danger zone—an economic battlefield on which America will still be fighting long after the peace treaties have all been signed.

Meanwhile the day-by-day results of war are merely intensifying the main problem itself. Great Britain, India, France, Germany, Russia and the United States—such countries are not the only ones involved in economic differences. Even little nations like Iceland and Peru are entering the lists.

Iceland, for example, once bought all her biscuits from England. Unable to get them during the war, she has built a great biscuit factory of her own. She now proposes to buy flour from Canada and protect her new home industry with a tariff.

Or take Spain. Spain, economically speaking, is already one of the most completely armed countries in the world. Yet she has just produced a new locomotive reported to be the most powerful in Europe. With an infant industry that may rival the Baldwin Locomotive Works some day, Spain will undoubtedly give this new arrival protection.

Australia, also, has a new infant industry—steel, for which she is inviting world trade. Australia reluctantly admits this may soon need protection. Peru is making auto tires from Peruvian materials. New tire factories are also in operation in Argentina and Brazil, as well as in Venezuela and Mexico. This is probably not news to our own growing synthetic rubber industry, or to the owners of the great rubber plantations of the Netherlands East Indies.

Everywhere—and particularly in Russia—the urge is strong to achieve economic self-sufficiency behind national barriers. This dangerous tendency can only be obviated by a workable international plan for economic cooperation; one which the Russians will join. All strictly nationalistic steps, with their potential threat to world peace, must be rendered unnecessary. For it was precisely such attempts at self-sufficiency and unrestrained nationalistic competition which produced World War II.

Any one of such attempts, if not understood by world opinion, may eventually afford a new breeding place for men who would rather make money than keep the peace—men who will engineer new nationalistic combinations and alliances, and risk war rather than lose their favoured financial positions.

Such men are the international rogues of the future, precisely as Hitler, Schacht, Von Ribbentrop and their minor apostles were the rogues of the past. Precisely as in the past their slogan in the future will be: "Protect Our Own Standard of Living!"

Actually, they will be asking for more blood money.

THE STORY OF U.S. TREASURY SECRET AGENTS

Blood
Money

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Blood Money

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BLOOD MONEY

The Story of U. S. Treasury Secret Agents

By FRANCIS RUFUS BELLAMY

Author of *We Hold These Truths*, etc.

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FRANCIS RUFUS BELLAMY

Born in New Rochelle, New York, Mr. Bellamy was educated at Williams College and Cornell University. He began his professional career as a farmer, then became a salesman for a book publishing firm. During the first World War, he was the Washington editor and later the foreign correspondent of the Red Cross magazine.

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The Story of the FBI

*The Official Picture History of the Federal Bureau of
Investigation*

By the Editors of LOOK

With an introduction by J. Edgar Hoover

Written and photographed with the full cooperation and assistance of the Federal Bureau of Investigation, this book tells in text and pictures the FBI's history, and shows how it goes about its task of protecting the nation's internal security. Authenticity and accuracy in every detail was insured by close collaboration with FBI technicians.

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